FISCAL RISKS STATEMENT 2022

Development Budget Coordination Committee

List of Acronyms and Abbreviations

AML	Anti-Money Laundering
ASEAN	Association of Southeast Asian Nations
ASF	African Swine Fever
BBB	Build, Build, Build
BESF	Budget of Expenditures and Sources of Financing
BFF	Bayanihan Fund for Frontliners
BHW	Barangay Health Workers
BIR	Bureau of Internal Revenue
BIS	Bank for International Settlements
BLGF	Bureau of Local Government Finance
BMCRRP	Bangon Marawi Comprehensive Rehabilitation and Recovery
BOC	Bureau of Customs
BSFIs	BSP-Supervised Financial Institutions
BSOS	Banking Sector Outlook Survey
BSP	Bangko Sentral ng Pilipinas
BTMS	Budget Treasury and Management System
BTr	Bureau of the Treasury
CA	Current Account
CAMP	COVID-19 Adjustment Measures Program
CARED	Comprehensive Aid to Repair Earthquake Damage
CCC	Climate Change Commission
CEPI	Coalition for Epidemic Preparedness Innovations
CL	Contingent Liability
CNI	Certificate of Necessity Import
COA	Commission on Audit
Coalition	Coalition of Finance Ministers for Climate Action
COVID-19	Coronavirus Disease 2019
CQ	Community Quarantine
CREATE	Corporate Recovery and Tax Incentives for Enterprises
DA	Department of Agriculture
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
DSA	Debt Sustainability Analysis
DSWD	Department of Social Welfare and Development
DRFI	Disaster Risk Financing and Insurance
DRIP	Disaster Resilience Improvement Program
ECQ	Enhanced Community Quarantine
FCDU	Foreign Currency Deposit Unit
FIST	Financial Institutions Strategic Transfer
FOMC	Federal Open Market Committee
FSCC	Framework Strategy on Climate Change
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
GOCC	Government-Owned and Controlled Corporations
GS	Government Securities
GSIS	Government Service Insurance System
GUIDE	Government Financial Institutions Unified Initiative to Distressed Enterprises for Economic Recovery
IATF-EID	Inter-Agency Task Force on Emerging Infectious Disease
IB	Islamic Banks
IBU	Islamic Banking Unit
IMF	International Monetary Fund
IRA	Internal Revenue Allotment
IRR	Implementing Rules and Regulations
LCR	Liquidity Coverage Ratio
LDF	Local Development Fund
LDRRMF	Local Disaster Risk Reduction and Management
LE	Large Enterprises
LGC	Local Government Code
LGRP	Local Government Reform Project
LGU	Local Government Unit
LIBOR	London Inter-Bank Offer Rate

LIGTAS	Adopt-a-Local Isolation and General Treatment Areas
LRTA	Light Rail Transit Authority
LSGF	Local Government Support Fund
MAGA	Material Adverse Government Action
MB	Monetary Board
MECQ	Modified Enhanced Community Quarantine
MIAA	Manila International Airport Authority
ML	Money Laundering
MLR	Minimum Liquidity Ratio
MOA	Memorandum of Agreement
MOOE	Maintenance and Other Operating Expenditures
MPBF	Miscellaneous Personnel Benefit Funds
MPL	Multi-Purpose Loan
MRA	Money Laundering/Terrorist Financing Risk Assessment System
MRRRP	Marawi Recovery, Rehabilitation and Reconstruction Program
MSME	Micro, Small, and Medium Enterprises
MUP	Military and Uniformed Personnel
NARS	National Asset Registry System
NCCAP	National Climate Change Action Plan
NCR	National Capital Region
NDC	Nationally Determined Contributions
NDRRMC	National Disaster Risk Reduction and Management Council
NDRRMF	National Disaster Risk Reduction and Management Fund
NDRRMP	National Disaster Risk Reduction and Management Plan
NEDA	National Economic and Development Authority
NERS	National Employment Recovery Strategy
NFA	Net Foreign Assets
NFA	National Food Authority
NG	National Government
NGA	National Government Agency
NIA	National Irrigation Authority
NII	Net Interest Income
NIM	Net Interest Margin
NPA	Non-Performing Assets
NPL	Non-Performing Loan
NSFR	Net Stable Funding Ratio
NSWMC	National Solid Waste Management Commission
NTA	National Tax Allocation
ODA	Official Development Assistance
OF	Overseas Filipinos

OPEC+	Organization of the Petroleum Exporting Countries and its allies
PAGASA	Philippine Atmospheric, Geophysical and Astronomical Services Administration
PAGCOR	Philippine Amusement and Gaming Corporation
PAP	Programs, Activities and Projects
PBS	Philippine Banking System
PCM	Provinces, Cities and Municipalities
PCM	Philippine Drug Enforcement Agency
PDITR+V	Prevent, Detect, Isolate, Treat, Reintegrate, plus Vaccinate
PDNA	Post-Disaster Needs Assessment
PDP	Philippine Development Plan
PDNA	Post Disaster Needs Assessment
PDSL2	Post Disaster Stand-By Loan Phase 2
PERA	Personal Equity and Retirement Account
PF	Proliferation Financing
PHIVOLCS	Philippine Institute of Volcanology and Seismology
PIRR	Project Internal Rate of Return
PPP	Public-Private Partnership
PSA	Philippine Statistics Authority
PSALM	Power Sector Assets and Liabilities Management Corporation
PSIP	PPP for School Infrastructure Project
QRF	Quick Response Fund
RCEF	Rice Competitive Enhancement Fund
RPMES	Regional Project Monitoring and Evaluation System
RPVARA	Real Property Valuation and Assessment Reform Act
RRP	Reverse Repurchase
SAP	Social Amelioration Program
SC	Supreme Court
SDG	Sustainable Development Goals
SEADRIF	Southeast Asia Disaster Risk Insurance Facility
SIF	Social Insurance Fund
SSS	Social Security System
TDF	Term Deposit Facility
TF	Terrorist Financing
TSI	Total Sum Insured
TUPAD	Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers
U/KB	Universal and Commercial Bank
VA	Virtual Asset
VASP	Virtual Asset Service Providers
VCE	Virtual Currency Exchange

WAIR	Weighted Average Interest Rate
WHO	World Health Organization
YoY	Year-on-Year
YTD	Year-to-Date

List of Tables

List of Figures

Table of Contents

I. EXECUTIVE SUMMARY

A. **The Philippine economy recorded a 9.6 percent contraction in 2020 due to the impact of the Coronavirus 19 (COVID-19) pandemic and the measures imposed to control its spread.** Both demand and supply side factors were inevitably affected as economic activity slowed down leading to a downturn in growth. Going forward, recovery hinges on the management of the health crisis and fiscal stimulus to allow the economy to get back on track.

B. **Resilient macroeconomic fundamentals supported stability amidst the pandemic.** Inflation remained on target for the period despite mounting pressure from food supply disruptions and rebounding oil prices. Treasury bill rates and borrowing costs have gone down owing to accommodative domestic and international monetary policy and preference for safe haven assets. Meanwhile, the Peso strengthened due to ample international reserves and decrease in imports.

C. **The higher actual and projected fiscal deficit reflects the higher expenditures for the Covid-19 response and medium-term priority agenda alongside recovering revenue collections**. Aside from the fiscal impact of the health crisis, other downside risks to the country's fiscal position include: (1) changes in the revenue allocation and expenditure devolution to local government units; (2) prohibition on certain expenditures in line with the conduct of the 2022 National Elections; and (3) inability to reform the current pension scheme for military and uniformed personnel (MUP).

D. **Despite the rise in the debt-to-GDP ratio, debt sustainability remains intact.** Prudent management and a strategic approach to debt issuance allows the debt stock to absorb short-term shocks without compromising fiscal stability over the medium-term. The debt ratio is expected to settle within prudent thresholds and improve as the government unwinds fiscal support implemented during the pandemic and as economic recovery gets under way.

E. **The Philippine banking sector maintains its strong financial condition and is supported by sufficient liquidity and capital buffers.** Various regulatory and operational relief measures have allowed banks to weather the crisis and support domestic growth prospects. Nevertheless, sectoral reform initiatives are being pursued given the changing and increasing sophistication of the global financial services industry.

F. Government Owned- and Controlled-Corporations played a crucial role in delivering vital services in line with their mandate while contributing to pandemic response initiatives through dividend remittance.

G. Local government units (LGUs) are experiencing a decline in revenues caused by economic uncertainties as well as concessions made for payment deadlines due to stringent quarantine measures. Moving forward, LGUs will have to be capacitated to handle devolved functions as part of reforms in the computation of National Tax Allocation (NTA).

H. **The management of inherent exposures to natural disasters is made more critical given the simultaneous threat of the health crisis.** The country's experience of managing the damage and fiscal risks associated with natural and human-induced disasters have put in place various safety nets to manage the impact of disasters as well as build resilience against future catastrophic events.

II. MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

A. Macroeconomic Performance

1. **The Philippine economy contracted by 9.6 percent in 2020, with employment dropping by 2.6 million or 6.2 percent, due to the coronavirus pandemic.** Real gross domestic product (GDP) growth deteriorated from -0.7 percent in Q1 to -17.0 percent in Q2, but gradually improved to -8.3 percent in Q4 as community quarantine (CQ) restrictions were gradually eased as health system capacity improved. Similarly, the unemployment rate increased to a record-high of 17.6 percent in April, but eased in the following months to 8.7 percent by October, bringing FY 2020 unemployment rate to 10.3 percent.

   On a positive note, the Philippine economy posted strong growth in the second quarter (Q2) of 2021 at 11.8 percent, after five consecutive quarters of contraction. This is an improvement from the -3.9 percent contraction in the previous quarter. While this may be partly attributed to base effects coming from a -17.0 percent decline in Q2 2020, it is also the result of a better balance between addressing COVID-19 and the need to restore jobs and incomes of the people. The CQ restrictions imposed this year have taken a more risk-based approach where more sectors were allowed to operate, including public transportation. The latest GDP outturn brings first semester (S1) 2021 growth to 3.7 percent.

   Among major emerging market economies in the region, the Philippines recorded the worst economic contraction in 2020 compared to India (-8.0%), Thailand (-6.1%), Malaysia (-5.6%), Singapore (-5.4%), and Indonesia (-2.1%). In contrast, Vietnam (2.9%) and China (2.3%) posted positive growth.

   In terms of S1 2021 GDP, the Philippines ranked fifth, next to China (12.7%), Singapore (7.7%), Malaysia (7.1%), Vietnam (5.6%), and ahead of Indonesia (3.1%) and Thailand (2.0%). Private sector analysts also expect a strong rebound for India (25.0%) in Q2.[1] Most countries benefitted largely from the reopening of economies and base effects from the peak of quarantine restrictions in 2020.

[1] Bloomberg consensus forecast for Q2 GDP. Accessed on 16 August 2021.

Table 1. Philippines: Macroeconomic Performance for 2018-2021 and NG Budget Assumptions for 2021 [a/]

(in percentage point, unless otherwise specified)

Particulars	2018		2019		2020		2021	
	BESF	Actual	BESF	Actual	BESF	Actual	BESF	YTD
Real GDP growth [b/]	7.0-8.0	6.2	7.0-8.0	5.9	6.5-7.5	-9.5	6.5-7.5	3.7 (S1 2021)
Inflation [c/]	2.0-4.0	5.2	2.0-4.0	2.5	2.0-4.0	2.6	2.0-4.0	4.4 (Jan-Jul)
364-day T-bill rate [d/]	2.5-4.0	5.1	3.0-4.5	5.2	5.0-6.0	2.4	3.0-4.5	1.7 (Jan-Jul)
6-month LIBOR	1.5-2.5	2.5	2.0-3.0	2.3	1.5-2.5	0.7	1.0-2.0	0.2 (Jan-Jul)
Exchange rate *(₱/US$1)*	48.00-51.00	52.66	50.00-53.00	51.80	51.00-55.00	49.62	50.00-54.00	47 (Jan-Jul)
Dubai crude oil price *(US$/barrel)* [e/]	45.00-60.00	69.13	50.00-65.00	63.15	60-75	42.15	35-50	64.35 (Jan-Jul)
Goods exports growth [f/]	7.0	0.3	9.0	2.9	6.0	-11.3	5.0	11.1 (Q1)
Goods imports growth [f/]	10.0	11.9	10.0	-3.0	8.0	-22.9	8.0	10.0 (Q1)

Sources: NEDA, PSA, BTr, and BSP

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

b/ BESF real GDP growth targets and actual figures for 2018-2019 are 2000-based. For 2020, the target was 2000-based while the actual figure was 2018-based. For 2021, the target was 2018-based.

c/ 2018-2021 target and actual inflation are 2012-based.

d/ Based on weighted average of primary market rates

e/ Actual Dubai crude oil price data based on IMF Primary Commodity Prices

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

2. **On the expenditure side, both household consumption (-7.9%) and investments (-34.4%) significantly dropped in 2020.** These two outweighed the increase in government consumption (10.5%), reducing domestic demand by 12.2 percent. External demand also weakened, with exports declining by 16.3 percent. This, however, was offset by the 21.6 percent decline in imports, resulting in an improvement in net exports (35.4%).

   On the other hand, the rebound in S1 GDP growth was mainly driven by the uptick in total investments (20.2%). In particular, fixed capital formation (6.1%) reverted to positive territory buoyed by the accelerated growth in construction (2.8%) and durable equipment (18.0%). Essential and priority construction projects, whether public or private, including small-scale projects such as those for residential housing, were allowed to continue even in areas under the enhanced community quarantine (ECQ).

Moreover, the slight improvement in consumer sentiment supported the increase in household consumption (0.9%). Government spending remained positive in S1 (3.5%) but decelerated owing to base effects from the roll-out of significant emergency subsidies in the second quarter of 2020. Overall, domestic demand expanded by 4.6 percent. Meanwhile, net exports deteriorated by 28.7 percent in S1 2021 as the recovery in total imports outweighed the increase in total exports.

3. **On the production side, several industries were affected by the COVID-19 pandemic, leading many firms to reduce production while some had to permanently close in 2020.** For instance, the services sector recorded a decline of 9.2 percent, with most of its subsectors contracting. Moreover, the industry sector slid by 13.2 percent largely driven by the decline in construction (-25.7%) and manufacturing (-9.8%). Although the agriculture sector was allowed to fully operate under the various CQs, the typhoons that hit the country in Q4, the spread of African swine fever, and the drop in institutional demand led to a 0.2 percent decline in sector output for full-year 2020.

   Meanwhile, in the first semester of 2021, almost all sectors bounced back despite the imposition of the ECQ and MECQ last April and May 2021. This is a clear indication that managing risks, instead of shutting down large segments of the economy, stands a far better chance of improving both economic and health outcomes. Significant improvements were observed in the industry and services sectors. For instance, the strong rebound in manufacturing (10.4%) and construction (0.8%) subsectors mainly drove the industry sector's expansion (7.4%) in S1 2021. In the services sector (2.6%), growth was mainly driven by trade (1.1%) and real estate (0.7%) supported by the easing of CQ restrictions. Additionally, transport & storage posted milder contraction as public transportations were allowed to operate subject to limited capacity regardless of CQ classification. Among the main industries, only the agriculture sector posted a slight contraction (-0.7%) because of the decline in livestock production.

4. **Headline inflation averaged 2.6 percent in 2020, which is within the government's annual inflation target of 3.0 percent ± 1.0 percentage point for the year.** Inflation rose slightly in 2020 from the 2.5-percent average in 2019 driven largely by higher food inflation due to supply bottlenecks amid the quarantine measures implemented particularly in the first half of 2020 as well as weather-related disturbances in the latter part of the year. Moreover, the African Swine Fever (ASF) outbreak also affected the domestic supply of pork, resulting in higher meat inflation. By contrast, non-food inflation moderated in 2020 due mostly to lower electricity rates and rollback in the prices of domestic petroleum products. The slowdown was tempered by the increase in transport services inflation around June 2020 given higher fares particularly for tricycles, with the implementation of safety protocols (limited seating).

   Upside price pressures strengthened in early 2021 due to higher food and transport inflation. Year-on-year meat inflation was on an uptrend for most of the H1 2021 due to the ASF, which prompted the government to roll out targeted measures to help stabilize pork supply and address elevated meat prices. The impact of these non-monetary measures was apparent as year-on-year meat inflation eased in June and July.

Meanwhile, vegetable inflation accelerated in July given adverse weather conditions. On the other hand, inflation for non-food items has been on an uptrend for the first five months of 2021 due to rising international oil prices, which led to upward adjustments in domestic petroleum prices. However, it eased in June and July as year-on-year inflation for transport services decelerated noticeably given base effects from the significant increase in tricycle fare in 2020.

5. **The 364-day Treasury bill rates in the primary market were lower in 2020, with the FY average settling at 2.4 percent, below the BESF assumption of 5.0 – 6.0 percent and the 2019 average of 5.2 percent.** In the secondary market, the 364-day T-bill rate likewise dropped to 1.7 percent at end-December 2020 from the 3.4-percent end-of-period rate in 2019. The decline in one-year T-bill rates reflected ample liquidity in the financial system owing to BSP's liquidity-enhancing measures in support of the whole-of-government's efforts to mitigate the impact of the COVID-19 pandemic. At the same time, cautious market sentiment towards the country's growth prospects contributed to stronger market demand for safe-haven government securities (GS).

   GS yields have remained low thus far in 2021 despite the slight uptick observed in March. The 364-day T-bill rates averaged at 1.7 percent in the auctions offered by the Bureau of the Treasury (BTr) in the first seven months of 2021. Domestic liquidity in the financial system has remained ample as the BSP's monetary policy stance continues to be accommodative, in support of the country's economic recovery.

6. **Foreign interest rates were similarly lower amid monetary policy accommodation by major central banks in response to the deterioration in global growth outlook due to the COVID-19 pandemic.** The average 180-day London Interbank Offered Rate (LIBOR)[2] dropped to 0.7 percent in 2020 from 2.3 percent in 2019 and settled below the BESF assumption of 1.5 – 2.5 percent. The US Federal Reserve has reduced its policy rate close to the zero-lower bound and deployed extensive measures to limit severe disruptions brought about by the global pandemic in the US economy.

   In 2021, the 180-day LIBOR has remained low given continued monetary policy accommodation by major central banks. In particular, the US Federal Reserve has kept its policy rate close to the zero-lower bound, thus far in 2021. However, in its June 2021 economic projections, majority of the Federal Open Market Committee (FOMC) participants projected a policy rate hike in 2023, signaling that the policy normalization in

[2] The Financial Conduct Authority (FCA) announced that the publication of all sterling, euro, Swiss franc, Japanese yen, 1-week and 2-month USD LIBOR will be discontinued after 31 December 2021 while the rest of USD LIBOR tenors including the 180-day LIBOR will not be available after 30 June 2023.
Source: FCA Press Release. Announcements on the end of LIBOR. 5 March 2021. URL: www.fca.org.uk/news/press-releases/announcements-end-libor

the US could commence earlier than initially expected. In January – July 2021, the 180-day LIBOR averaged at 0.2 percent.

7. **The peso-dollar exchange rate appreciated in 2020.** On the domestic front, the government's policy measures against the pandemic, decrease in imports, optimism over the progress of coronavirus vaccines, and the rise in gross international reserves (GIR) contributed to the peso appreciation. On the external front, the appreciation of the peso against the US dollar was influenced by the higher domestic yields vis-à-vis foreign yields amidst the low interest rates in the US. In 2020, the peso-dollar rate averaged at ₱49.62/US$, lower than the BESF assumption of ₱51.00-55.00/US$ for the year and previous year's average of ₱51.80/US$.

   Meanwhile, the peso-dollar rate in 2021 has remained broadly stable and continued to be influenced by multiple factors in both the domestic and external fronts. On the one hand, monetary and fiscal support, the rollout of the COVID-19 vaccination in the country, and ample foreign exchange reserves have continued to provide support on the peso. On the other hand, the emergence of new coronavirus variants and surge in new cases of COVID-19 infections have dampened sentiments over the local currency. In addition, the rise in good imports and the market's perceived shift to a hawkish tone by the US Federal Reserve posed depreciation pressure on the peso. The peso-dollar exchange rate averaged at ₱48.47/US$ in the January – July 2021.

8. **Global crude oil prices declined notably in 2020.** Dubai crude oil prices averaged at US$42.15 per barrel in 2020, lower than the previous year's level and below the BESF assumption of US$60.00-75.00 per barrel for the year. The monthly path of Dubai crude oil prices dropped sharply in first few months of 2020 due to concerns of weaker demand as the spread of COVID-19 weighed down on oil prices. The prices of global crude oil recovered gradually in the succeeding months, albeit remaining low, due to the coordinated production cuts by OPEC+. At the same time, optimism over the efficacy results of different possible COVID-19 vaccines has also boosted oil prices in late-2020.

   Global crude oil prices have been generally on an uptrend thus far in 2021 driven by both demand- and supply-side factors. Dubai crude oil price averaged at US$64.35 per barrel in the first seven months of 2021, which is higher than the BESF assumption of US$35.00-50.00 per barrel. International oil prices edged higher amid optimism over global oil demand outlook with the rollout of COVID-19 vaccines. Furthermore, the OPEC+ decision to limit supply output along with Saudi Arabia's additional voluntary cut of one million barrels per day (mb/d) in February to April, also supported the rise in international oil prices. Oil prices dipped briefly in April due to worries over demand prospects as COVID-19 cases surged, particularly in India. Crude oil prices rose anew in May to July driven by expectations of demand recovery on the back of easing restrictions in selected countries.

9. **The preliminary trade-in-goods growth for FY 2020 showed significantly lower actual outturn than the initial projections in the 2020 BESF published in August 2019 as the COVID-19 pandemic and the associated containment efforts severely hampered global and domestic economic activity.** Exports slowed down from initial expectations reflecting the sharp contraction of the global economy and disruption in global supply chains amid the global pandemic. Weak domestic demand as a result of government-imposed lockdown measures to control the spread of COVID-19 likewise caused the steep contraction in goods imports along with lower world oil prices.[3]

10. **The 2020 goods exports declined by 11.3 percent to US$47.4 billion from US$53.5 billion in 2019.** This downturn stemmed mainly from the shortfall in shipments of manufactures (by -12.2 percent), mostly electronic products as well as travel goods and handbags, brought about by weak demand from major export markets and disruptions in supply chains as a result of the pandemic. Similarly, exports of fruits and vegetables, coconut, other agro-based, forest, and petroleum products dipped during the period. However, exports of mineral products managed to register a positive growth of 6.6 percent following higher shipments of copper metal, iron ore agglomerates and other mineral products.

    Imports of goods declined substantially by 22.9 percent to US$79.3 billion from US$102.8 billion in the previous year as a result of reduced importation across all major commodity groups. In particular, imports of capital goods dipped by 29.1 percent to US$22.2 billion. Imports of mineral fuels and lubricants also fell by 44.3 percent to US$7.4 billion on account of the decline in the procurement of petroleum crude and other related products and lower average global price of crude oil. Imports of raw materials and intermediate goods dropped by 14.3 percent owing largely to lower purchases of manufactured goods (23.3 percent) and chemicals (15.2 percent). Similarly, imports of consumer goods fell by 23.4 percent due to decline in shipments of both durables, notably passenger cars and motorized cycle and miscellaneous durable manufactures, and non-durables such as food and live animals chiefly for food (particularly rice, and fish and fish preparation) and articles of apparel and accessories.

11. **Nonetheless, the 2021 year-to-date goods trade data showed improved performance and gradual recovery in the trade momentum after hitting a trough in 2020. Exports of goods increased by 11.1 percent to US$12.9 billion in the first quarter of 2021 on account mainly of stronger external demand from the Philippines' largest export markets, most notably China and the United States.** On a per commodity basis, the improvement in trade in goods exports was buoyed by manufactures, which rose by 20.2 percent to US$10.3 billion in Q1 2021. Electronic products accounted for the bulk of the growth in the exports of manufactured goods, as shipments rose by 19.3 percent, owing mainly to increased external demand for semiconductors and electronic data processing units. Other commodity groups that

3 In addition, the revision in the 2019 imports level resulted in a higher base for the year-on-year comparison.

showed improvement during the period were coconut, forest, other agro-based, and sugar products.

Meanwhile, imports of goods during the first quarter of 2021 amounted to US$24 billion, 10 percent higher than the US$21.8 billion recorded in the same period in the previous year. This stemmed from stronger domestic demand for raw materials and intermediate goods, and capital goods, which posted double-digit year-on-year growth rates of 17.7 percent and 18.1 percent, respectively, in the first quarter of 2021. Similarly, consumer goods increased by 10.3 percent to US$4.4 billion on account of the growth recorded in food and live animals (19.5 percent), and other durable miscellaneous manufactures (9.8 percent).

B. Macroeconomic Outlook and Risks for 2021 and 2022

12. **The International Monetary Fund (IMF)**[4] **maintained its 2021 growth projections for the global economy at 6.0 percent.** The better outlook for advanced economies was offset by less favorable prospects for emerging and developing economies, especially for emerging Asia. These mainly reflect pandemic developments and changes in policy support across countries. Downside risks remain such as slower-than-anticipated vaccine rollout and tight financial and external conditions which may drag down global economic growth. **For the Philippines, the Development Budget Coordination Committee (DBCC) revised its growth target for FY 2021 to 4.0 to 5.0 percent** from 6.0 to 7.0 percent. This is mainly due to the re-imposition of stricter community quarantine restrictions in various areas of the country to address the heightened risks brought about by the COVID-19 Delta variant.[5]

13. **The government will continue its three-pillar strategy to achieve the country's growth and job targets.** First is the acceleration of the vaccination program. Second is the safe reopening of the economy, while strictly adhering to public health protocols. Third is the full implementation of the recovery package.

14. **The economy's recovery will get a boost from the 2021 budget, the Build, Build, Build program, and the implementation of the Corporate Recovery and Tax Incentives for Enterprises or CREATE law.** The economic team also looks forward to the passage of the amendments to the Public Service Act, the Retail Trade Liberalization Act, and the Foreign Investment Act. All these will help attract investments, expand our growth potential, and create more and better jobs.

15. The **National Employment Recovery Strategy (NERS) 8-Point Employment Recovery Agenda** which has been recently launched covers various government programs that aim to generate more employment and entrepreneurship opportunities

[4] International Monetary Fund, World Economic Outlook, July 2021.
[5] DBCC-approved targets as of 18 August 2021.

while reviving companies affected by the pandemic. The project amounts to PHP 1.139 trillion and targets to benefit 1.421 million individuals in 2021. Additionally, 1 million jobs are expected to be generated with the NERS-ECOP Jobs Project, while a proposed budget of PHP 24 billion for wage subsidy is now under review.

16. **The timely implementation of the National ID program will hasten the country's digital transformation, allowing businesses to benefit from adopting digital solutions to ensure business and service continuity amid health risks caused by the pandemic.** Over the longer term, this can accelerate the country's transition to a digital economy, ensuring smoother private and public transactions and easing access to other social services.

17. **However, risks to the growth outlook remain, owing largely to the uncertainties brought by the COVID-19 pandemic which can be exacerbated by the threat of the new coronavirus variant**. Also, the continued spread of the African Swine Fever in the country may pose an upside risk to inflation, particularly on food prices. Meanwhile, the absorptive capacity of implementing agencies and local government units needs to be improved for the government to fully deliver on its planned programs and projects. External risks also remain such as the slowdown in global trade, geopolitical tensions, lower remittances and increased number of displaced OFWs, and lower foreign direct investments due to increased risk aversion to emerging markets will also affect the domestic economy.

For 2022

18. **The economy is projected to grow by 7.0 to 9.0 percent in 2022.**[6] This will be supported by the timely implementation of the fiscal program in 2021, as well as the effective rollout of the vaccination program. The Philippine economy is expected to return to its pre-pandemic level by end-2022 or early 2023.

19. **Consumer and business confidence are expected to remain positive buoyed by the further relaxation of restrictions locally and overseas.** As vaccines become more widely available, domestic demand and external trade are expected to pick up, benefitting both the industry and services sectors.

20. **The upcoming 2022 national elections may affect the country's political and economic climate.** For instance, the implementation of the government's infrastructure projects may be disrupted, as public works and the release of public funds during the election period are prohibited under the Omnibus Election Code of the Philippines. In addition, there may also be a delay in the passage of key reforms during the campaign period.

[6] DBCC- approved targets as of 18 August 2021.

21. The latest BSP assessment (as of 12 August 2021 monetary policy meeting) indicates that inflation will likely settle close to the high-end of the inflation target range for 2021, to decline towards the midpoint of the range in 2022-2023. Meanwhile, the risks to the inflation outlook remain broadly balanced over the policy horizon. A further uptick in international commodity prices due to improving global demand amid lingering supply-chain bottlenecks could result to upside pressures to inflation. However, downside risks to the inflation outlook are also seen from the spread of more contagious coronavirus variants. In particular, delays in the lifting of containment measures could further dampen prospects for global growth and domestic demand. Going forward, the BSP will remain vigilant against any emerging risks to the inflation outlook. The BSP stands ready to adjust its policy settings as needed to ensure price and financial stability conducive to a sustainable economic recovery. Equally important, the BSP supports direct supply-side measures to address the main source of supply constraints and bottlenecks.

22. **Downside risks from pandemic-related uncertainties remain.** The IMF noted that exceptional uncertainties continue to surround the global outlook in the short term. These downside risks include the possibility of virus resurgence including from new variants which could prove difficult to contain and could trigger increased incidence of COVID-19 infections before vaccinations are widely performed. Slower-than-expected progress on medical interventions is also expected to dampen the possibility of a quick exit from the pandemic and weaken confidence. Specifically, this could involve delays in vaccine rollout, widespread hesitancy, shorter-lived immunity from the vaccine than anticipated, and limited advances on therapies. Another downside risk is the possibility of financial tightening if policy support is withdrawn before the recovery takes firm root.

23. **On the upside, further favorable news on vaccine manufacture, distribution, and effectiveness could increase expectations of easing of restrictions on economic activities, boosting confidence among firms and households.** These are expected to generate stronger consumption, investment, and employment recoveries, with firms hiring and expanding capacity in anticipation of rising demand. The resulting income gains would support higher and more front-loaded spending than projected. Greater fiscal policy support, with favorable spillover effects for trading partners, is also projected to further lift global activity.

24. **The outlook for goods trade will likewise depend on global growth prospects, which to a large extent is determined by the evolution of the virus and the distribution of effective vaccines.**[7] Slower-than-expected vaccine rollout and renewed infection surges, including the emergence of potentially more transmissible new variants could stall and delay trade recovery to 2022.[8] Other risks could emanate

7 World Trade Organization (WTO) Goods Trade Barometer. “Goods Barometer signals strong trade rebound but momentum may be short-lived.” 18 February 2021.

8 Slater, A. (2021). “For world trade, a strong but incomplete rebound in 2021.” Oxford Economics Research Briefing Global. 11 January 2021.

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

25. **The government is taking proactive measures to reduce the spread of COVID-19 and accelerate the country's vaccination program.** The re-imposition of stricter CQs in high-risk areas, including NCR, in the third quarter, is a proactive response to address the spread of the more contagious Delta variant and preclude the return of more lockdowns down the road. During this period, the government accelerated the vaccination program.

26. **The government has activated a crisis action plan focusing on the enhanced implementation of the Prevent, Detect, Isolate, Treat, Reintegrate, plus Vaccinate (PDITR+V) strategy**.[9] This is complemented by stricter border control and heightened surveillance. Travel ban imposed on countries experiencing a surge in COVID-19 Delta variant cases and other border control measures are being strictly enforced. Measures to expand the hospital capacity are already in place, such as the availability of more ICU and isolation beds, and procurement of oxygen tanks, medications, and other needed logistics.

27. **To balance the health and economic costs of the pandemic, the government will continue to adopt a risk-based approach to quarantines** and find a balance between stemming the spread of COVID-19 and the need to restore jobs and incomes of the people, instead of shutting down large segments of the economy.

28. On 28 December 2020, President Rodrigo Duterte signed into law the ₱4.5 trillion 2021 General Appropriations Act which serves as the government's financial blueprint to recovery for the period. The ₱4.5 trillion budget is equivalent to 21.8 percent of GDP and is larger by 10 percent than the FY 2020 budget. The FY 2021 national budget will help the nation reset by addressing the pandemic, rebound by boosting infrastructure development and by generating job opportunities, and rebuild by assisting communities adapt to the post-pandemic life.

29. **Rising food prices are already being addressed, to prevent a wage-price spiral.** The President signed Executive Order Nos. 133 and 134 to address the spike in pork prices due to the ASF through a higher minimum access volume and lower tariffs. Since then, pork inflation has decreased from 58.4 percent in May to 38.4 percent in July.

    Meanwhile, rice prices continued to fall with inflation of -1 percent in July. The Rice Tariffication Law has achieved its dual goal of bringing down retail prices while helping

[9] https://www.pna.gov.ph/articles/1149681. Accessed on 07 August 2021.

farmers improve productivity through the Rice Competitive Enhancement Fund or RCEF. Executive Order 135, which reduced the most-favored nation tariff rate of rice outside ASEAN, also contributed to ensuring adequate rice supply at affordable prices.

The government will also proactively ensure that fish prices do not rise further as supply narrows in the upcoming close fishing season starting October. The DA is preparing to issue certificates of necessity to import (CNI) to cover the supply gap.

The government will ramp up its programs and projects that would boost the employability of workers, especially those displaced by the COVID19 pandemic. Upskilling and retooling of displaced workers are being undertaken to develop in-demand skills in the new normal such as digital adeptness and technological skills. Other training and vocational programs may also be supported by the government to facilitate the sectoral reallocation of the workforce from the industries severely affected by the crisis into labor-intensive and priority sectors such as agriculture, manufacturing, and the government's Build, Build, Build (BBB) program.

III. FISCAL PERFORMANCE

A. <u>REVENUE PERFORMANCE</u>

30. For 2020, the National Government (NG) incurred a deficit of ₱1.4 trillion, 107.7 percent higher than the deficit in 2019 as revenues fell even as expenditures grew at a faster pace due to the COVID-19 pandemic.

31. Total revenue collection slowed down by 9.0 percent year-on-year (YoY). As a percent of GDP, it contracted from 16.1 percent to 15.9 percent. Expenditures rose by 11.3 percent YoY, accounting for 23.6 percent of GDP from 19.5 percent in 2019.

32. Tax revenues declined by 11.4 percent or ₱323.2 billion, compared to the 2019 level. Collections of both the Bureau of the Internal Revenue (BIR) and the Bureau of Customs (BOC) dropped substantially due to the drastic reduction of economic activity resulting from the widespread community quarantine imposed around the country because of the pandemic, and a grueling mix of natural disasters led by the Taal volcano eruption and devastating typhoons experienced in 2020. Tax revenues as percentage of GDP then dropped by 0.5 percentage points compared to n the pre-COVID level of 14.5 percent in 2019.

33. BIR collections for 2020 amounted to almost ₱2.0 trillion, lower by 10.3 percent compared to the 2019 collection of ₱2.2 trillion.

34. Revenue from the BOC reached ₱537.7 billion, ₱92.6 billion or 14.7 percent lower than its collection in 2019. The drop in revenues reflected the impact of the global health pandemic on global trade and limited activities in the domestic economy.

35. Non-tax collections, excluding privatization and grants, reached ₱350.8 or ₱42.1 billion higher than 2019, primarily driven by higher income of the BTr and NG income collected by BTr. Both BTr income and NG income collected by BTr registered a 49.9 percent increase in 2020 compared to 2019. This was due to higher dividends, other government service income, and interest on advances from GOCCs compensating for the lower shares from the income of the Philippine Amusement and Gaming Corporation (PAGCOR) and interest income from NG deposits.

36. Total privatization and grants proceeds amounted to ₱716.0 million or lower by 37.3 percent compared with 2019's level of ₱1.1 billion.

Outlook for 2021 – 2022

37. Expansionary fiscal and monetary policies support an economic rebound starting 2021. These will spur domestic demand and support tourism, trade, and manufacturing sectors. In addition, inoculating the majority of the Filipinos against the COVID19 virus will allow us to reopen more of the economy. It will encourage more businesses and sectors to operate again at a higher capacity. This will allay fears of people getting infected and will give confidence to employees to go back to work. Lastly, the continuing adherence to basic health protocols such as social distancing, mask and face shield wearing, and frequent handwashing for self-protection and safety, will help arrest spikes of infections in public areas and workplaces.

38. Revenue collection projection for 2021 was revised slightly higher to ₱2.9 trillion or 14.5 percent of GDP given the better-than-expected revenue performance in the first seven months of the year. Gradual easing of the community quarantine and allowing certain sectors of the economy to operate at higher capacities are expected to bring the tax base closer to pre-pandemic levels for 2021. For 2022, total revenue is projected to reach ₱3.3 trillion or 14.9 percent of GDP. The 2022 projection is ₱408.0 billion higher compared to the 2021 levels. Tax collection, on the other hand, was revised at ₱2.7 trillion and ₱3.1 trillion in 2021 and 2022, respectively. Tax revenue as percent of GDP is projected at 13.7 percent in 2021 and 14.2 percent in 2022.

39. The adjustments for 2021 and 2022 already factored the expected impact of the implementation of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) law or RA 11534 and the Financial Institutions Strategic Transfer (FIST) law or RA 11523. Estimates for the legislated tax policy measures such as Packages 1A and 2+ were also revised slightly higher due to improved consumer demand particularly for excisable products when the quarantine restrictions gradually eased. Proceeds from these new revenue measures, including the impact of CREATE and FIST laws, are estimated to reach ₱61.9 billion in 2021, and ₱101.4 billion in 2022.

40. Some of the possible risks to the 2021 revenue outlook are the following:

A. Resurgence of COVID-19 infections due to the spread of new and highly transmissible variants like the Delta variant;
B. Imposition of enhanced community quarantine that includes liquor ban, curfew, among others; and
C. Delay in the inoculation of the 70 percent of the population due to limited supply of vaccines.

Table 2. Philippines: Medium Term Revenue Program, 2021-2022
(In billion pesos)

Particulars	2018 Actual	2019 Actual	2020 Actual	2021 Program	2022 Program
Total Revenues	**2,850.2**	**3,137.5**	**2,856.0**	**2,881.5**	**3,289.5**
% of GDP	*15.6%*	*16.1%*	*15.9%*	*14.5%*	*14.9%*
Tax Revenues	**2,565.9**	**2,827.7**	**2,504.4**	**2,714.8**	**3,125.0**

% of GDP	*14.0%*	*14.5%*	*14.0%*	*13.7%*	*14.2%*
BIR	1,951.9	2,175.5	1,951.0	2,081.2	2,434.8
BOC	593.1	630.3	537.7	616.7	671.7
Other Offices	20.9	21.8	15.7	16.9	18.5
Non-Tax Revenues	**268.6**	**308.7**	**350.8**	**166.2**	**164.0**
Grants and Privatization	**15.7**	**1.1**	**0.7**	**0.5**	**0.5**
Expenditures	**3,408.4**	**3,797.7**	**4,227.4**	**4,737.1**	**4,954.6**
% of GDP	*18.7%*	*19.5%*	*23.6%*	*23.9%*	*22. 4%*
Deficit	**(558.3)**	**(660.2)**	**(1,371.4)**	**(1,855.6)**	**(1,665.1)**
% of GDP	*-3.1%*	*-3.4%*	*-7.6%*	*-9.3%*	*-7.5%*
Nominal GDP	***18,265.2***	***19,517.9***	***17,938.6***	***19,849.7***	***22,080.8***

Notes:

1. *BIR and BOC collections for fiscal years 2018, 2019, and 2020 are net tax refund.*
2. *Revenue program for fiscal years 2021 and 2022 are Dec 3, 2020 DBCC levels and fiscal year 2022 are July 19, 2021 DBCC levels.*
3. *Projected nominal GDP for fiscal years 2021 and 2022 are midpoint estimates shared by NEDA on May 18,2021*

Source:

Philippine Statistics Authority (PSA) for the actual GDP levels for fiscal years 2018 to 2020 as of April 2021

Table 3. Philippines: Medium Term Revenue Program, 2021-2022

(Growth rates)

Particulars	2018 Actual	2019 Actual	2020 Actual	2021 Program	2022 Program
Total Revenues	**15.2%**	**10.1%**	**-9.0%**	**0.9%**	**14.2%**
Tax Revenues	**14.0%**	**10.2%**	**-11.4%**	**8.4%**	**15.1%**
BIR	10.1%	11.5%	-10.3%	6.7%	17.0%
BOC	29.4%	6.3%	-14.7%	14.7%	8.9%
Other Offices	3.7%	4.4%	-28.0%	7.3%	9.9%
Non-Tax Revenues	**21.2%**	**14.9%**	**13.6%**	**-52.7%**	**-1.4%**
Grants and Privatization	**1,707.4%**	**-92.7%**	**-37.3%**	**-30.2%**	**0.0%**

Expenditures	**20.7%**	**11.4%**	**11.3%**	**12.1%**	**4.6%**
Deficit	**59.2%**	**18.3%**	**107.7%**	**35.3%**	**-10.3%**

Table 4. Philippines: New Revenue Measures, 2018-2022
(In billion pesos)

Particulars	2018 Actual	2019 Actual	2020 Actual	2021 Program	2022 Program
Total	**68.4**	**134.7**	**144.0**	**61.9**	**101.4**
% of GDP	*0.4%*	*0.7%*	*0.8%*	*0.3%*	*0.5%*
Package 1A/TRAIN	**68.4**	**130.7**	**105.9**	**157.9**	**169.9**
% of GDP	*0.4%*	*0.7%*	*0.6%*	*0.8%*	*0.8%*
Package 1B/Tax amnesty	**0.0**	**4.0**	**6.0**	**0.0**	**0.0**
% of GDP	*0.0%*	*0.02%*	*0.03%*	*0.0%*	*0.0%*
Package 2+/Sin tax reform	**0.0**	**0.0**	**32.1**	**43.1**	**52.3**
% of GDP	*0.0%*	*0.0%*	*0.2%*	*0.2%*	*0.2%*
Package 2/CREATE	**0.0**	**0.0**	**0.0**	**-138.2**	**-118.8**
% of GDP	*0.0%*	*0.0%*	*0.0%*	*-0.7%*	*-0.5%*
FIST law	**0.0**	**0.0**	**0.0**	**-1.0**	**-2.0**
% of GDP	*0.0%*	*0.0%*	*0.0%*	*-0.01%*	*-0.01%*
Nominal GDP	***18,265.2***	***19,517.9***	***17,938.6***	***19,849.7***	***22,080.8***

Note:

1. *Revenue program on new measures for fiscal years 2021 and 2022 are July 19, 2021 DBCC levels.*
2. *Projected nominal GDP for fiscal years 2021 and 2022 are midpoint estimates shared by NEDA on May 18, 2021.*

Source:
PSA for the actual GDP levels for fiscal years 2018 to 2020.

Table 5. Philippines: New Measures, 2019 - 2022
(Growth rates)

Particulars	2019 Actual	2020 Actual	2021 Program	2022 Program
Total	**96.8%**	**6.9%**	**-57.0%**	**63.9%**
Package 1A/TRAIN	90.9%	-18.9%	49.1%	7.5%
Package 1B/Tax amnesty	-	47.8%	-100.0%	-
Package 2+/Sin tax reform	-	-	34.2%	21.4%
Package 2/CREATE	-	-	-	-14.0%
FIST law	-	-	-	97.5%

Tax Administration and Reforms

41. Rigorous tax administration and reforms will continue to boost revenues. Aggressive implementation of tax administration and governance reforms will result in sustained growth in revenue collection, enhanced transparency, and elimination of tax evasion and smuggling.

42. **Actual data showed that tax reform measures under Packages 1A (TRAIN), 1B (Tax amnesty), and 2+ (Sin tax reforms) contributed ₱144.0 billion additional revenues or 0.8 percent of GDP in 2020.** This was 6.9 percent higher or ₱9.3 billion higher than the 2019 tax collection of ₱134.7 billion. Package 1A or TRAIN revenue in 2020 was ₱105.9 billion, 18.9 percent lower compared to the 2019 level of ₱130.7 billion due to the economic slowdown caused by the COVID-19 pandemic. The 2020 tax collection managed to post higher than the 2019 level due to the first year implementation of the sin tax reforms and extension of the effectivity of the tax amnesty, which contributed ₱32.1 billion and ₱6.0 billion, respectively, to the total tax collections from new measures.

43. **The actual collections for 2020 from new measures were ₱18.3 billion higher than the December 3 DBCC projections.** This reflected gradual economic recovery in the second half of 2020 as community quarantine and liquor ban were eased particularly in NCR and nearby provinces, which brought about better-than-expected revenue collections during the same period

44. **The estimated contribution of the new measures to tax collections in 2021 is ₱82.1 billion or 57.0 percent lower than the 2020 collections.** The downward projection included the impact of the implementation of Package 2 or CREATE and the FIST law, which are estimated to lower revenues by ₱138.2 billion or negative 0.7 percent of GDP and ₱1.0 billion or negative 0.01 percent of GDP, respectively.

45. **Package 1A is estimated to provide an additional revenue of ₱157.9 billion in 2021 or 0.8 percent of GDP.** While, the revised estimate for Package 2+ is now at ₱43.1 billion or 0.2 percent of GDP.

46. The same tax reform measures are estimated to yield additional net revenues of ₱101.4 billion or 0.5 percent of GDP in 2022. This is an increase of 63.9 percent compared with the 2021 estimate.

47. **Package 1A in 2022 is estimated to contribute additional revenue of ₱169.9 billion or 0.8 percent of GDP.** Package 2+ or the sin tax reform laws are estimated to provide additional revenue of ₱52.3 billion or 0.2 percent of GDP. CREATE is estimated to incur a revenue loss of ₱118.8 billion or negative 0.5 percent of GDP. Lastly, the FIST law is expected to lower revenues by ₱2.0 billion or negative 0.01 percent of GDP.

B. EXPENDITURE PERFORMANCE

2020 Disbursement Performance[10]

Table 6. Philippines: Comparison of NG Disbursements, FY 2020-2022
(*in billion pesos*)

Particulars	2020			2021		2022
	Projection	Program	Actual	Projection	Program[1]	Projection[2]
DISBURSEMENTS	**4,213.8**	**4,335.2**	**4,227.4**	**4,467.0**	**4,737.1**	**4,954.6**
CURRENT OPERATING EXP.	3,058.0	3,475.6	3,326.4	3,281.6	3,679.7	3,625.8
Personnel Services	1,224.2	1,177.8	1,178.5	1,278.9	1,301.1	1,415.3
MOOE	583.5	996.1	885.4	687.9	945.4	687.9
Subsidy	208.4	244.1	229.0	146.9	231.4	155.9
Allotments to LGUs	576.5	621.6	620.0	621.9	655.8	839.6
Interest Payments	451.0	421.3	380.4	531.5	531.5	512.6
Tax Expenditures	14.5	14.7	33.1	14.5	14.5	14.5
CAPITAL OUTLAYS	1,145.7	832.7	878.9	1,156.8	1,028.7	1,300.1
Infrastructure and Other CO	942.9	609.3	681.5	944.7	761.2	1,017.0
Equity	2.3	51.2	12.8	1.4	56.8	10.8
Capital Transfers to LGUs	200.6	172.3	184.6	210.7	210.8	272.3
NET LENDING	10.0	26.9	22.1	28.7	28.7	28.7

Source: DBM
1/ Program approved by the DBCC on May 18, 2021.
2/ Projection approved by the DBCC on July 19, 2021.

10 See Department of Budget and Management (DBM), National Government Disbursement Performance Report (as of December 2020), available at https://www.dbm.gov.ph/wp-content/uploads/DBCC/2020/NG_Disbursements_December%202020_for%20posting.pdf (last visited Mar. 12, 2021).

48. NG Spending for 2020 closed at ₱4.227 trillion, a ₱429.7 billion (11.3 percent) increase YoY but still lower than the ₱4.335 trillion program by ₱107.8 billion (2.5 percent). Disbursement performance for the previous year was largely affected by the COVID-19 pandemic and was characterized by an increase in spending for health and response measures as well as for social protection programs.

49. Notably, maintenance spending and allotment to LGUs registered the highest increases YoY at ₱885.0 billion and ₱620.0 billion, respectively. These translate to increases of about ₱312.1 (54.5 percent) and ₱156.7 (33.8 percent), respectively. Apart from infrastructure spending, all expense classes posted bigger spending figures YoY.

The huge increase in maintenance spending was due to the health emergency response, Social Amelioration Program, and livelihood/employment assistance programs such as the Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers (TUPAD), the DOLE-AKAP for OFWs, and the COVID-19 Adjustment Measures Program (CAMP). Meanwhile, spending growth in the allotment to LGUs was accounted by higher IRA of the LGUs, the Bayanihan Grant to the Provinces, Cities and Municipalities, the annual block grant to the Bangsamoro Autonomous Region in Muslim Mindanao, and the Local Government Support Fund (LGSF).

Despite higher spending performance YoY, each of the expense classes performed slightly below expectations when compared vis-à-vis with the program, owing to unintended delays in the execution of programs and activities brought about by the pandemic and the subsequent response. It is noted that infrastructure spending is an exception since it performed better than the program, owing to the strong performance of the DPWH despite the pandemic and the reprioritization of the 2020 Budget pursuant to Bayanihan I.

50. While the economy plummeted following the imposition of quarantine and safety protocols, government spending needed to be a bastion for tempering the decline in GDP.

The 2020 fiscal deficit posted at ₱1.371 trillion (7.6 percent of GDP), significantly wider than the 3.4 percent of GDP outturn in 2019 but still consistent with the fiscal outlook adopted by the DBCC during its 178th Meeting, where it revised the same from 9.6 percent of GDP to 7.6 percent of GDP. The expansion of the fiscal deficit was a necessary policy response to adequately bolster health and social protection spending as well as to mitigate the adverse impact of the pandemic.

Outlook for 2021

51. **The expenditure program for 2021 is set at ₱4.506 trillion, equivalent to 22.7 percent of GDP and 9.9 percent higher than the 2020 budget of ₱4.100 trillion.**[11] The FY 2021 National Budget retains its prioritization of infrastructure development but also introduces an intensified focus on response and recovery programs to combat the adverse impacts of the pandemic, as well as to prepare the country in adapting to the post-pandemic life.[12]

Table 7. Philippines: Comparison of NG Disbursements for the Period January-June, 2020-2021
(*in billion pesos, unless otherwise specified*)

Expenditure Class	2020	2021		Variance		Increase/Decrease	
	Actual	Program[1/]	Actual	Amt.	%	Amt.	%
DISBURSEMENTS	**2,013.7**	**2,439.8**	**2,206.5**	**-233.3**	**-9.6**	**192.8**	**9.6**
CURRENT OPERATING EXP.	1,622.2	1,841.9	1,615.5	-226.4	-12.3	-6.7	-0.4
Personnel Services	559.3	618.6	593.8	-24.7	-4.0	34.6	6.2
MOOE	413.0	435.6	372.3	-63.3	-14.5	-40.8	-9.9
Subsidy	128.7	178.2	88.3	-89.9	-50.5	-40.4	-31.4
Allotments to LGUs	327.1	342.9	337.0	-5.9	-1.7	9.9	3.0
Interest Payments	187.7	257.9	208.5	-49.4	-19.1	20.9	11.1
Tax Expenditures	6.5	8.8	15.6	6.9	78.4	9.2	142.1
CAPITAL OUTLAYS	380.6	585.6	584.2	-1.4	-0.2	203.6	53.5
Infrastructure and Other CO	297.9	419.6	426.6	7.0	1.7	128.7	43.2
Equity	0.6	56.0	46.0	-10.0	-17.9	45.4	8,213.9
Capital Transfers to LGUs	82.2	110.0	111.5	1.5	1.4	29.4	-35.8
NET LENDING	10.9	12.3	6.8	-5.5	-44.6	-4.1	-37.6

Source: DBM
1/ Based on the FY 2021 Quarterly Fiscal Program approved by the DBCC during its May 18, 2021 meeting.

52. **NG Spending for the first half of FY 2021 posted at ₱2.206 trillion, higher YoY by ₱192.7 billion (9.6 percent), but below the programmed amount by ₱233.4 billion (9.6 percent).**

The YoY increase is largely attributed to higher capital outlays (up by ₱203.5 billion), personnel services (up by ₱34.6 billion), and interest payments (up by ₱20.9 billion). Meanwhile, maintenance spending and subsidies declined by ₱40.8 billion and P40.4

11 Exclusive of the P209.9 billion additional allotments for the NG's COVID-19 pandemic response.
12 Id. at page 7.

billion, respectively, in view of the completion of the SAP in 2020 by DSWD and the one-time dole-outs for the Small Business Wage Subsidy Program through the Social Security System in April and May last year.

In terms of the disbursement program approved by the DBCC during its May 18, 2021 meeting, actual spending in the first half of FY 2021 fell short by around 9.6 percent considering: delays in the timing of releases due to late and/or noncompliance to documentary requirements; outstanding checks recorded in various departments; ongoing processes for claims and payments, as well as pending deliveries for procured goods and supplies; and the timing of availment of NG advances by other GOCCs, to name a few. Still, it bears stressing that this shortfall was tempered by higher-than-programmed infrastructure and other capital outlays and payment of documentary stamp taxes for government-issued debt instruments.

53. For the second half of FY 2021, NG Spending is seen to remedy the slower disbursements recorded from January to June on account of delays in subsidy releases and outstanding checks; catch-up plans will guide the implementation of ongoing programs and projects for the rest of the year.

In terms of request for subsidy releases by GOCCs, these are currently under evaluation by the DBM and are subject for approval upon compliance of the conditions for such releases; on the other hand, the matter of outstanding checks is expected to be resolved within the period considering that government-issued checks are only valid for three months from the date of issuance.

To further support the disbursement of ongoing programs and projects, underperforming agencies are also required to submit catch-up plans to ensure the timely and proper implementation of such programs and projects for the rest of the year.[13] These plans shall reflect the actual performance during the quarter within which they underperformed, along with their estimated/projected outturns for the rest of 2021.

2022 National Budget

54. For FY 2022, the NG has submitted a budget of around ₱5.024 trillion, equivalent to 22.8 percent of GDP and 11.5 percent higher than the 2021 budget of ₱4.506 trillion.

Of this amount, personnel services shall take up the lion's share of ₱1.456 trillion (29.0 percent of the FY 2022 NEP) to cover the hiring of additional healthcare workers and teaching personnel, as well as the implementation of the third tranche of Salary Standardization Law V and the 2018 Military and Uniformed Personnel pension arrears, among others. Capital outlays and maintenance spending, on the other hand, are pegged at ₱939.8 billion (18.7 percent of the FY 2022 NEP) and ₱777.9 billion (15.5

13 *See* Section 3.17.2 of DBM National Budget Circular No. 583 (2021). Guidelines on the Release of Funds for FY 2021.

percent of the FY 2022 NEP), respectively. Notably, allotment to LGUs will also take up a considerable share of the budget at ₱1.116 trillion (22.2 percent of the FY 2022 NEP), which includes the ₱959.0 billion National Tax Allotment as mandated by the Supreme Court in *Mandanas vs. Ochoa*.

55. The NG shall keep its pace with the Administration's development agenda and strive for the continued implementation of budget reforms,[14] and through the proposed budget, it will aim to engender not only structural resilience against the COVID-19 pandemic, but also sustained economic growth through strategic prioritization of social services and infrastructure development.

The FY 2022 Budget Proposal will remain consistent with the 0-10 Point Socioeconomic Agenda and the Philippine Development Plan and the updated Three-Year Rolling Infrastructure Program, while at the same time ensure that programs/activities and projects are also in line with the structural measures contained in the "We Recover as One" Report of the NEDA such as, but not limited to, (i) health systems improvement, (ii) digital transformation, (iii) food security, and (iv) investment generation.

In terms of spending priorities for the FY 2022 fiscal space, the NG shall prioritize both strategic measures and programs such as the National Vaccination Program, assistance to disadvantaged LGUs, the establishment of the Virology Science and Technology Institute of the Philippines, the National Identification System, programs promoting sound family planning, health and nutrition, and other priority expenditures in line with the updated PDP and TRIP.

Likewise, the government shall endeavor to modernize and improve the national budgeting system in pursuit of the public welfare. The DBM shall continue to lead the transition towards the annual Cash Budgeting System by ensuring that agency proposals are both implementation-ready and proactive as regards to the changing socio-economic landscape of the country

Sources of Fiscal Risks

On the COVID-19 Pandemic and NG Response

56. The government's total COVID-19 response and recovery measures (Bayanihan I and II, and releases post-Bayanihan I) amount to ₱568.0 billion.

57. As of June 30, 2021, the DBM has released a total of ₱387.9 billion under the Bayanihan I, ₱214.1 billion under the Bayanihan II, and ₱70.8 billion under the FY 2021 GAA, to various NGAs to support the implementation of PAPs to address public health emergency, mitigate adverse impacts, and support economic recovery. Both amounts

14 DBM National Budget Memorandum No. 138 (2021). National Budget Call for FY 2022.

include releases charged against Special Purpose Funds (SPFs) such as the FY 2020 National Disaster Risk Reduction and Management Fund (NDRRMF), Contingent Fund, Miscellaneous Personnel Benefits Fund (MPBF), and Unprogrammed Appropriations. The details of which are summarized in Tables 6 and 7 below.

Table 8. Philippines: Releases under Bayanihan I, as of 24 February 2021

Department	Allotment (in billions)	Particulars
DSWD	212.4	Implementation of Social Amelioration Programs under the *Bayanihan* I Act, under which eligible low-income households are expected to receive cash transfers of P5,000 to P8,000 a month for a period of two months; Assistance to Individuals in Crisis Situation (AICS)
DOLE	12.6	Financial assistance to affected workers under various programs (e.g., CAMP and TUPAD); Emergency Repatriation Program for OFWs
DOH	49.0	Funding requirements to address the COVID-19 pandemic (e.g., procurement of detection kits)
DOF	89.0	Allocations for the *Bayanihan* Grant to LGUs; Funding for the Small Business Wage Subsidy Program under the SSS, and *Pondo sa Pagbabago at Pag-asenso Program* under the Small Business Corporation
DA	11.4	Implementation of ALPAS Kontra COVID-19 Program which is expected to benefit around 3 million rice farmers nationwide and increase local rice production; and other agriculture support programs
DepEd	10.9	Implementation of the Basic Education-Learning Continuity Plan
Others	2.6	Other COVID-19 response and recovery measures implemented by agencies
TOTAL	**387.9**	

Table 9. Philippines: Releases under Bayanihan II, 24 February 2021

Department	Allotment (in billions)	Particulars
DOH	48.0[15]	Hiring of human resources for health, special risk allowances and hazard duty pay, augmentation of operations of DOH hospitals, procurement of the COVID-19 vaccine
DOLE	21.4	Cash-for-work Programs (e.g., CAMP, TUPAD, AKAP); Emergency Repatriation Program; Computer Based Licensure Examination (CBLE) ; and COVID-19 response programs
DOTr	10.3	COVID-19 response and recovery interventions for the transportation industry (e.g., service contracting, development of sidewalks and bicycle lanes); Funding requirement for the Subsidy for Mass Transport
DA	23.3	Agriculture Stimulus Package (e.g., Plant, Plant, Plant Program, cash or loan interest rate subsidies to agri-fishery enterprises, cooperatives)
DOF-BTR	80.2	COVID-19 Assistance to Restart Enterprises Program, lending programs and interest subsidy
DSWD	6.0	COVID-19 response and recovery interventions, including the provision of emergency subsidy and livelihood assistance grants
DepEd	5.5	Digital Education, Information Technology and Digital Infrastructures and Alternative Learning Modalities, Subsidies and allowances to qualified students; and Basic Education-Learning Continuity Plan
DILG	5.0	Hiring and training of contact tracers; Management of various mega testing centers and quarantine facilities
Others	14.4	Other COVID-19 response and recovery measures implemented by agencies
TOTAL	**214.1**	

15 P10 billion of which is for the procurement of COVID-19 vaccines.

Table 10. Philippines: Releases under the FY 2021 GAA, as of 30 June 2021

Department	Allotment (in billions)	Particulars
DOH	69.6[16]	Advance procurement of COVID-19 vaccine and related expenditures under the Health System Enhancement to Address and Limit COVID-19 Project
DOLE	0.2	Implementation of the Emergency Repatriation Program
DND	1.0	COVID-19 response under the Oplan Kalinga Program
Others	0.0	Philippine pledge to the COVID-19 ASEAN Response Fund; and payment of Special Risk Allowance to public health workers of UP-PGH
TOTAL	**70.8**	

58. The passage and subsequent signing of the COVID-19 Vaccination Program Act of 2021,[17] as well as the availability of funds for the procurement of the COVID-19 vaccine, are aimed to support the country's transition to post-pandemic life.

Particularly, the Act authorizes the DOH and the NTF against COVID-19 to procure vaccines through themselves and limits other government units and instrumentalities, as well as the private sector, to procure the same without the former's joint participation. It also provides for transparency and accountability mechanisms by restricting the aforementioned bodies from procuring vaccines which are not registered with the FDA; information on the approved budget/s, the details of the COVID-19 vaccines, the name/s of the supplier/s, manufacturer/s, or distributor/s, and the amount/s of award/s shall also be posted in conspicuous places of the procuring entities as well as in the GPPB Online Portal within thirty (30) days after the award, execution of definitive agreement, or upon effectivity of the Act.

It may also be recalled that the NG has set aside a budget of ₱82.5 billion for the COVID-19 vaccine, which covers the ₱70.0 billion allocation under the FY 2021 Unprogrammed Funds, ₱2.5 billion allocation under the DOH budget for FY 2021, and ₱10.0 billion under the Bayanihan 2 standby funds.

The effective implementation of the Act, on the back of available appropriations, is seen to expedite the vaccination of key sector personnel and eventually the entire population,

16 P10 billion of which is for the procurement of COVID-19 vaccines.

17 Rep. Act. No. 11525 (2021), available at https://www.officialgazette.gov.ph/2021/02/26/republic-act-no-11525/ (last visited Mar. 12, 2021).

and thereby uplifting health standards and revitalizing economic activity to allow the country to adapt to and thrive in the post-pandemic life.

59. The extension of the validity of the Bayanihan II and the FY 2020 GAA appropriations is projected to contribute to the fiscal stimulus alongside the FY 2021 budget.

Rep. Act. Nos. 11519 (for Bayanihan II) and 11520 (for the FY 2020 GAA) extended the validity of appropriations in terms of release, obligation, and disbursement of appropriations until June 30, 2021 and December 31, 2021, respectively.

These are expected to supplement government spending and contribute favorably to economic growth, cet. par. To facilitate the treatment of said funds, the DBM issued NBC No. 585[18] on January 4, 2021, which provides the guidelines on unobligated allotments charged against the foregoing Acts are to be presented, adjusted, and thereafter encoded.

60. The COVID-19 Delta variant, and other future variants, will weigh in on fiscal outcomes, most notably the deficit-to-GDP ratio, as containment measures are re-imposed in various areas of the country to mitigate the spread and/or resurgence of the virus.

In its August 18, 2021 meeting, the DBCC revised its growth assumptions for FY 2021 in view of the re-imposition of Enhanced Community Quarantines in various areas of the country to combat the risks brought about by the COVID-19 Delta variant. With the revision of the growth assumptions, the deficit path may increase by as much as 2 percentage points over the medium-term, cet. par. This only further underscores the need to accelerate the roll-out of the national vaccination program, even as the NG manages the pandemic through granular lockdowns, robust contract tracing measures, and health systems management.

While the threat of the COVID-19 Delta variant is alarming, the NG remains vigilant in managing the risks caused by the pandemic without severely hampering economic activity, balancing the strict observance of health protocols while gradually and safely opening up the economy.

On the Mandanas Ruling

61. In light of the SC ruling in Mandanas vs. Ochoa,[19] which ordered that the derivation of the share of LGU in the national taxes should include national

18 DBM National Budget Circular No. 585 (2021). Guidelines on the Treatment of Released Allotment and Release of Funds for FY 2021 pursuant to Republic Act (R.A.) Nos. 11519 and 11520.

19 Mandanas v. Ochoa, G.R. No. 199802 (2019).

internal revenue taxes and customs duties, the projected IRA of LGUs in 2022 is expected to increase by ₱239.8 billion.20 , the projected National Tax Allotment (NTA) of LGUs in 2022 is ₱959.0 billion, which is higher by around ₱185.2 billion (24 percent) from the base case figure of ₱773.9 billion.21

62. It is worth mentioning that the said amount has already been considered in the FY 2022 total disbursement program amounting to ₱4.954 trillion, and that structural reforms outlined in Executive Order (EO) No. 138, s.2021[22] directing the devolution of certain functions of the Executive branch to local governments has been issued by the President on June 1, 2021.

63. Section 5 of EO 138 mandates the preparation of devolution transition plans (DTPs) of NGAs to ensure the smooth implementation of the devolution of functions and basic services, and facilities to LGUs.

64. The TWG on Full Devolution, together with consultants from the World Bank, Asian Development Bank, and Project DELIVER of the USAID, have already initiated consultation meetings with the concerned NGAs and GOCCs since September 2020. The meetings are aimed to prepare the DTPs which shall contain the unbundling of PAPs to be devolved by level of LGU, the standards for delivery of devolved services, a capacity development strategy for LGUs, a monitoring and assessment framework, and an Organizational Effectiveness Proposal containing the modified organizational structure of each affected office.

65. Still, risks loom large, particularly in the eventual implementation of these devolved functions by the LGUs as well as in the complexity of the unbundling of agency functions.

66. Throughout the course of the consultations, it has been frequently observed that there is a general reluctance if LGUs can sustain the level of service of functions pre-devolution. In addition, there is also the difficulty in implementing a uniform approach across NGAs on the unbundling of the functions which are slated for devolution, owing largely to the circumstances of the functions specific to one NGA but not for another. Nevertheless, the NG has taken proactive strides to mitigate the risks arising from the implementation of devolved functions through the following measures:

a. As early as September 2020, the DBM and the DILG have conducted consultations and focus group discussions with local chief executives and local legislators, the different Leagues of Barangays, Cities, Provinces, and Municipalities, as well as the Association of Councilors and Young Legislators to discuss the implications of the Mandanas Ruling.

20 DOF estimates as of March 19, 2021. Very preliminary and subject to change.

21 DOF estimates as of March 19, 2021. Very preliminary and subject to change.

22 Executive Order No, 138 – Full Devolution of Certain Functions of the Executive Branch to Local Governments, Creation of a Committee on Devolution, and for Other Purposes dated June 1, 2021

b. In its National Budget Call for FY 2022, the DBM has advised NGAs to limit their subsidies for local projects to LGUs belonging to the 5th and 6th income classes to ensure that sufficient resources may be channeled to LGUs who are in direr need of assistance.

c. Furthermore, the risks resulting from implementation only serve to underscore the significance of the DTPs moving forward, as they ground expectations and facilitate the transition of the devolved functions and services.

d. Section 9 of EO 138 and Rule IX of its IRR also provide that capacity building for LGUs shall be developed and provided to ensure the efficient and smooth delivery of devolved services.

e. The importance of a clear and effective communication strategy that will inform not only the NGAs and LGUs, but also the CSOs and the general public is also encapsulated in EO 138 and its IRR. This will not only clarify the various facets of the implementation of the SC Ruling but would also encourage the participation of the civil society to become active partners in the implementation of full devolution.

2022 National Elections

67. In view of the upcoming National Elections, the prohibition on public works, as well as for social welfare dole-outs, may contribute to a slowdown on infrastructure disbursements during the first half of 2022.

Section 261 (v) and (w) of the Omnibus Election Code prohibits the disbursement of funds for public works, social welfare, housing, as well as the construction of public works, delivery of materials for public works and issuance of treasury warrants and similar devices forty-five (45) days before a regular election, subject to certain exceptions, such as when the ongoing public works projects had already commenced before the campaign period or similar projects under foreign agreements or when the work involves maintenance of said project, in which case the prohibition will not apply.

The foregoing considered, said risks may be mitigated by the proper and timely conduct of Early Procurement activities, which in turn entails the approval and effectivity of the pertinent funding sources (i.e. GAA, Corporate Budget, Appropriations Ordinance, loan agreements in FAPs).

68. The change in Administration in 2022 may shift the NG's development priorities and/or administrative tenor, affecting key reforms particularly in the budgeting system.

To ensure that the confident strides toward a more effective and efficient budgeting system will not be reversed, the passage of the Budget Modernization Bill is earnestly sought.

Said Bill not only serves to institutionalize the Cash Budgeting System, which has since served to limit the validity of appropriations to a timeline of one-year, but it also serves to institutionalize the following reforms:

a. Performance-based Budgeting and Program Budgeting;
b. Implementation of the Treasury Single Account and the strengthening of oversight function of the BTr on government bank accounts;
c. Development of the Integrated Financial Management Information System, the core of which is the BTMS which has already been developed and currently being rolled out;
d. Oversight of Internal Audit Standards; and
e. Increased participation of the public in the budget process.

Overall, officials of the economic team remain confident of policy continuity after the 2022 National elections given the government's strong commitment to continue given the track record of pursuing forward looking policy reforms.

Military and Uniformed Personnel (MUP) Retirement and Pension Reform

69. Senate Bill No. 1419 and the various House Bills on the MUP Retirement and Pension Reform, which are currently pending in their respective Houses of Congress, seek to provide all MUP with adequate remuneration and benefits through the revamping of the current retirement benefits and pension scheme.

70. The DBM's position paper on the matter dated August 14, 2020, recommends, among others, that the financial sustainability of the proposed contribution of the national government should be revisited. Said contribution rates vary across bills but generally range from 18 percent to 27 percent of the monthly base pay of the MUP, which is exorbitantly high when compared to the civilian rate of 12 percent of the monthly basic salary. This will result in the ballooning of retirement and pension requirements over the next few years, without the correlative funding sources to support them. In fact, the creation of the retirement fund will necessarily result to an additional requirement of ₱45 billion annually, according to the actuarial study by the DOF.

71. It was recommended that a MUP Fund Authority administer and oversee the MUP retirement funds. Given the increased need for solvency in the MUP retirement funds, the DBM has recommended that instead of creating a MUP Fund Authority, the GSIS should be tapped to serve as fund administrator considering its actuarial, investment, and fund management expertise and experience. It is also prudent to have it be managed by the GSIS so that administration of the retirement and pension systems are holistic and overseen by one central agency.

IV. PUBLIC DEBT

72. **For 2020, the NG raised P2,741.1 billion to cover the wider budget gap and cash provisioning requirements**. This raised the NG's debt-to-GDP to 54.6% from 39.6% in the 2019, reversing previous gains as the higher financing requirement came alongside a contraction in economic activity.

Table 11. Philippines: NG Debt Indicators, 2018-2020
(in percent)

Particulars	2018	2019	2020
National Government Debt			
% of GDP	39.9%	39.6%	54.6%
By Currency			
Peso	66.9%	67.7%	69.4%
Foreign	33.1%	32.3%	30.6%
Interest Payments			
% of Revenues	12.3%	11.5%	13.3%
% of Expenditures	10.2%	9.5%	9.0%

Source: BTr

73. The higher financing requirement coupled with the contraction in economic activity consequently caused the inflection in the trend of the ratio between NG debt and GDP which settled at 54.6% in 2020 from 39.6% in 2019.

As of Q2 2021, the debt-to-GDP ratio is at 60.4% as economic activity remains muted. Nevertheless, the debt ratio was kept bear prudent thresholds, which, alongside fiscal discipline, is projected to stabilize and improve as economic recovery regains traction.

74. **The borrowing strategy took advantage of favorable market demand and rates to manage the debt profile.** Accommodative monetary policy and excess domestic liquidity has allowed for the continuous redenomination of NG debt to the local currency and manage FX risk by increasing the share of domestic debt.

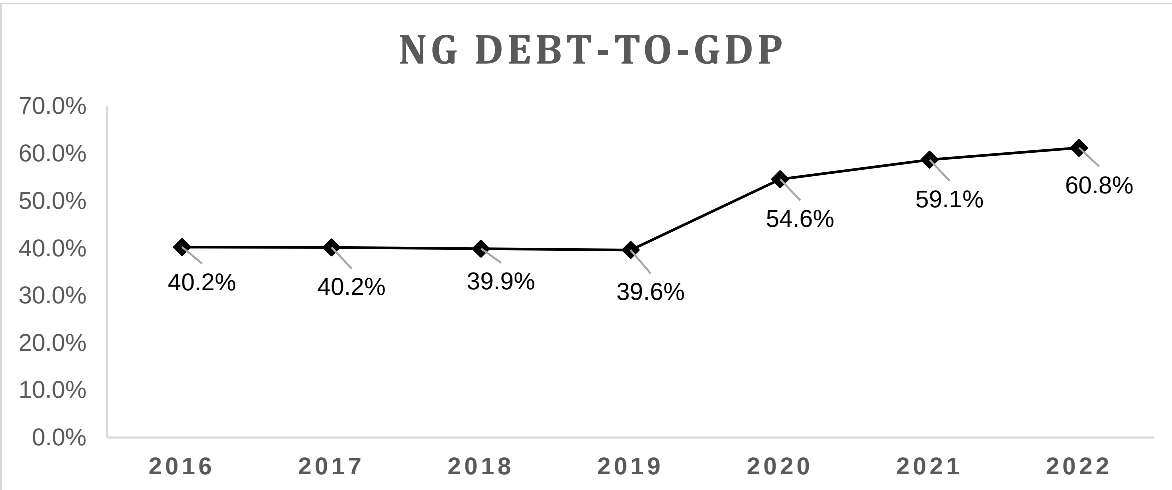
75. **Moreover, the debt servicing burden has continued to improve.** Interest payments in proportion to expenditures settled at 9.0 percent as of end 2020 from 9.5 percent in the previous year despite higher borrowings. However, a reduction in the collection turnout increased the ratio relative to revenues to 13.3 percent from 11.5 percent over the same period.

Outlook and Sources of Fiscal Risks

76. **For end 2021 and 2022, the debt-to-GDP ratio will likely settle at 59.1 and 60.8%,** respectively, based on the assumptions for the deficit, GDP growth as well as other

factors such as the FX rate. Over the medium term, the debt ratio will be driven by the subsequent fiscal deficit as economic recovery gains traction.

Figure 1. **Philippines: Medium-Term Debt-to-GDP Ratio, 2018-2022**



77. **The primary risk to the outlook lies in the fiscal position of the NG and the state of the economy.** The fiscal program reflects the financing requirement of the government and is ultimately linked to economic activity through government expenditures as well as revenue generation. As such, careful fiscal programming is crucial to provide needed economic stimulus while maintaining fiscal discipline which has a lasting impact in terms of subsequent debt servicing requirements as well as the country's growth trajectory.

78. **The Debt Sustainability Analysis (DSA) indicates that the country's Debt-to-GDP ratio will further moderately increase in the medium-term but will remain broadly manageable.** The baseline scenario using the latest DBCC Medium-Term assumptions projects the fiscal deficit to increase up to 9.4 percent in 2021 to facilitate the economy's recovery before gradually declining thereafter as the NG assumes fiscal consolidation and slowly withdraws fiscal stimulus deployed to address the COVID-19 health emergency. The NG debt trend follows a stable path, rising from 54.6 percent in 2020 an breaching 60 percent at its peak for 2022-2023, where after it would slowly return to a downward trajectory as GDP growth and the fiscal deficit return to their pre-2020 long-run averages beginning in 2025.

79. **Continued relatively higher primary deficit mainly contributes to the projected moderate increase in the Debt-to-GDP ratio over the medium term**. As the COVID-19 pandemic adverse-impact persists, the NG will continue to provide fiscal support to the economy until broad recovery sets in. Based on the DSA results, a primary balance of 2.2 percent of GDP or less is needed to stabilize Debt-to-GDP ratio towards declining path.

Figure 2. Philippines: Baseline NG Debt Dynamics, 2020-2025

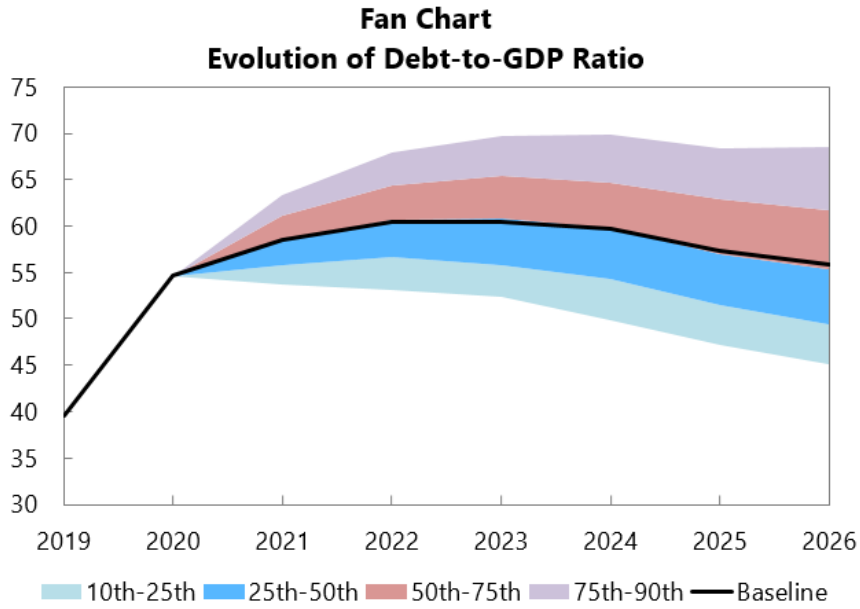
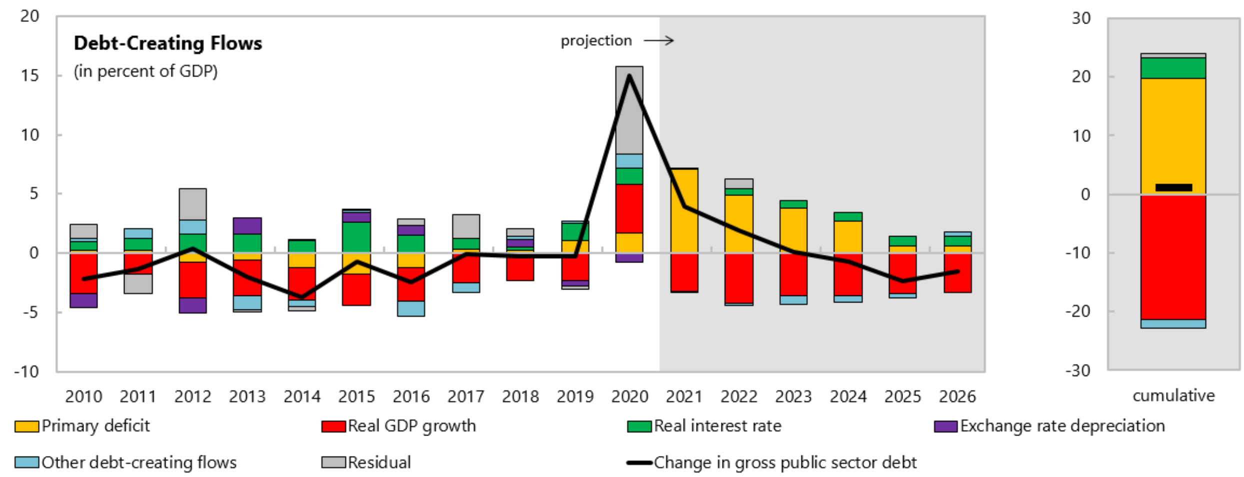


Figure 3. Philippines: Contributions to Changes in Debt-to-GDP



Risk Mitigating Measures

80. **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 a strategic approach to borrowing operations. This aims to provide an adequate buffer to any sudden rise in rates tendered for government securities. Proper coordination with the monetary policy response has since eased rates to even below ECQ levels.

81. Further, a well-managed debt profile allows for the absorption of short-term shocks without severely affecting the long-run sustainability of the country's debt as shown by the improving debt ratio forecasted by the DSA.

82. **Policy coordination with the BSP has provided pricing support for domestic issues.** The repo facility and provisional advances between the BSP and the BTr also provides immediate liquidity support. 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.

V. MONETARY PERFORMANCE

Domestic Liquidity

83. Domestic liquidity growth decelerated as of end-December 2020. Domestic liquidity (M3) expanded by 9.5 percent as of end-December 2020, slower than the 11.3-percent expansion recorded at end-2019. Meanwhile, net foreign assets (NFA) in peso terms grew by 25.2 percent in December 2020.

84. As of June 2021, M3 grew by 6.4 percent (preliminary) to about ₱14.4 trillion. This was faster than the 4.7-percent growth recorded in May. On a month-on-month seasonally-adjusted basis, M3 grew by 1.0 percent.

85. NFA in peso terms rose by 12.7 percent in June from 14.5 percent in May. The expansion in the BSP's NFA position reflected the increase in the country's gross international reserves relative to the same period a year ago. Meanwhile, the NFA of banks expanded at a slower pace as banks' foreign liabilities rose on account of higher bills payables.

86. Bank lending continued to contract albeit at a slower rate of 2.0 percent in June 2021. Preliminary data show that outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP, decreased by 2.0 percent year-on-year in June after declining by 4.0 percent in the previous month. On a month-on-month seasonally-adjusted basis, outstanding universal and commercial bank loans, net of RRPs, went up by 1.1 percent.

87. Outstanding loans to residents, net of RRPs, fell by 1.4 percent (from 3.5 percent contraction in May) while outstanding loans to non-residents decreased by 19.7 percent (from 18.8 percent decline last month), as concerns over the spread of new coronavirus variants continued to temper market sentiment and the outlook for economic recovery. Consumer loans to residents went down by 8.6 percent in June from a 9.2-percent decrease in May as motor vehicle loans and salary-based consumption loans declined further.

88. Likewise, outstanding loans to major industries continued to fall but at a slower rate, attributed mainly to wholesale and retail trade and repair of motor vehicles and motorcycles and manufacturing. The contraction in outstanding loans to these key sectors was partly moderated by the growth in loans to real estate activities, information and communication, electricity, gas, steam, and air conditioning supply, and transportation and storage. On balance, total outstanding loans for production activities, net of RRPs, posted a lower contraction by 0.6 percent in June from a 2.9-percent fall in May.

Monetary Policy Assessment

89. At the onset of the pandemic in 2020, the BSP has implemented a number of monetary policy measures to ensure ample liquidity in the financial system, lower cost of funding in the economy, restore financial market functioning, and shore up market confidence amid the COVID-19 health crisis. These measures include:

- **Reduction in the policy rate by a cumulative 200 basis points (bps) since February 2020.** The BSP reduced the interest rate on the BSP's overnight RRP facility initially by 25 bps in February, followed by an additional 50 bps each in March and April, another 50 bps in June, and 25 bps in November. With the 200-bps cumulative reduction in the policy rate, the overnight RRP rate is at 2.00 percent. The interest rates on the overnight lending and deposit facilities were likewise reduced to 2.50 percent and 1.50 percent, respectively. These policy rate cuts aim to help reduce the cost of borrowing and encourage banks to lend to businesses and households instead of keeping their money in the BSP. Future decisions on the policy rate will remain data-dependent and consistent with the BSP's mandate to help preserve price stability conducive to a balanced and sustainable growth.

- **Reduction in the reserve requirement (RR) ratios.** The BSP lowered the RR by 200 bps, effective on 3 April 2020, for U/KBs and non-bank financial institutions with quasi-banking licenses; and by 100 bps, effective on 31 July 2020, for thrift banks and rural/cooperative banks. The lower RR helped infuse additional liquidity into the market and limit undue financial strains. Further reductions as well as potential cuts on the RR ratios of other BSP-supervised financial institutions (BSFIs) will depend on how domestic liquidity and credit conditions evolve.

- **Provision of (a) bridge financing for the NG** and **(b) remittance of ₱35 billion in advance dividends. The BSP provided the provisional loan** by way of a repurchase agreement with NG (₱300 billion fully settled in end-September 2020 and ₱540 billion released on 12 January 2021 which was fully settled on 7 July 2021). A new tranche of provisional advances amounting to another ₱540 billion was released on 16 July 2021 and will mature on 14 October 2021. Both these measures assisted the NG to fund its programs against COVID-19.

- **Extraordinary liquidity measure through our purchases of government securities (GS) in the secondary market,** which helped financial markets function smoothly despite the crisis and spurred market interests to sustain participation in the GS market. The window remains open to help address liquidity needs of banks.

- **Alternative mode of compliance to RRs.** The Monetary Board has allowed banks to count newly granted loans to micro, small, and medium enterprises

(MSMEs) as well as qualified large enterprises (LEs) as part of their compliance with RRs in order to encourage lending to affected businesses and thus support economic recovery.[23] Aggregate loans to MSMEs and LEs utilized under the alternative compliance measure should not exceed ₱300.0 billion and ₱425.0 billion, respectively. The said limits are calibrated based on different simulations to ensure that the use of loans as an alternative mode of compliance is in line with domestic liquidity conditions.

The BSFIs are allowed to utilize loans to MSMEs and LEs as alternative compliance with the reserve requirements until 29 December 2022, subject to early closure, if warranted and with prior notice.24 Once the above-mentioned limits are reached prior to 29 December 2022, the BSP will proceed to amend existing policy by closing the eligibility window on the use of the relief measure.[25]

- **Temporary reduction in the scale of monetary operations for liquidity absorption.** The BSP reduced the scale of its liquidity absorption, through the cancellation and zero offering of the term deposit facility (TDF) auctions and the lowering of the daily overnight RRP volume offering during the early months of the pandemic, to ensure adequate liquidity in the system. The BSP has started reconfiguring its monetary operations on 10 June 2020 amid improvements in the domestic liquidity conditions and market functioning.

90. **The monetary policy stance of the BSP remains appropriately accommodative in 2021. In the latest monetary policy meeting of the BSP on 12 August, the Monetary Board decided to maintain its key policy rate at 2.0 percent.** The Monetary Authorities are of the view that the expected path of inflation and downside risks to domestic economic growth warrant keeping monetary policy settings unchanged. In addition, the Monetary Board remains keen on sustaining monetary policy support for as long as necessary in order for the momentum of economic recovery to gain more traction as well as to help boost domestic demand and market confidence, especially as risk aversion continues to temper credit activity.

91. Providing support to overall domestic demand remains a key priority for monetary policy amid the expected manageable inflation path. It remains prudent for the BSP to maintain its ongoing stimulus as prospects of delays in the easing of containment measures as well as a weaker-than-expected global recovery owing to the spread of new COVID-19 variants continue to cloud the outlook for domestic economic activity. Moreover, the BSP's accommodative policy settings are deemed necessary as economic slack is likely

23 BSP Circular No. 1083 dated 22 April 2020

24 Based on BSP Circular No. 1100 series of 2020. Amendments to the Alternative Compliance with the Reserve Requirements of Banks and Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBS).

25 Bangko Sentral ng Pilipinas (2020, 11 December). BSP Announces Limits on Loans to MSMEs and Large Enterprises Used as Alternative Compliance with Reserve Requirements [Media Release].

to persist amid the significant uncertainty brought about by the detection of local transmission of the more contagious Delta variant of COVID-19. The risk of a protracted pandemic due to virus resurgence remains high and prospects for sustainable recovery remain largely dependent on the progress of the vaccine rollout. Continued monetary policy support, therefore, remains a necessary complement to expansionary fiscal policy measures (including FIST and GUIDE) in reviving aggregate demand and helping to reduce potential long-term economic scarring.

92. Nevertheless, BSP decisions on the monetary policy stance will remain data-dependent and guided primarily by the evolving outlook on inflation and growth. Accordingly, the BSP will continue to evaluate in the coming months if adjustments in the policy stance will be warranted, keeping in mind the continuing need for sustained policy support to facilitate the recovery of the economy.

VI. EXTERNAL SECTOR

93. The country's external sector remains manageable with adequate liquidity buffers, which can help cushion the domestic economy against external shocks.

94. Following the steeper decline in goods imports than in goods exports, the current account (CA) for the FY 2020 recorded a surplus of almost US$13 billion, a marked reversal from the US$3 billion deficit posted in 2019. This resulted primarily from the large reduction in the trade-in-goods deficit to US$31.8 billion, which more than offset the decline in net receipts of primary and secondary income. The weak performance of both exports and imports of goods reflected the subdued demand conditions in both global and domestic fronts as disruptions to economic activity prevailed amid the ongoing COVID-19 pandemic. **For the first quarter of 2021, the current account reversed to a deficit of US$614 million from the US$225 million surplus recorded in the same quarter in the previous year.** The shift emanated from the widening of the trade-in-goods gap on account of the growth in imports amid the gradual reopening of the domestic economy due to the easing of COVID-19 containment measures. Lower net receipts of primary income also contributed to the current account deficit.

95. Based on preliminary data as of end-July 2021, the country's GIR level stood at US$106.55 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 about 12.1 months' worth of imports of goods and payments of services and primary income. It is about 7.7 times the country's short-term external debt based on original maturity and 5.1 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.

96. The country's external payments position remains manageable with key external debt indicators at prudent levels. The country's external debt-to-GDP ratio declined to 26.7 percent of GDP in Q1 2021 from 27.2 percent as of end-December 2020. The lower external debt-to-GDP ratio in Q1 2021 compared to the prior quarter was due mainly to the net repayments attributed to the settlement of obligations by private domestic banks and the redemption by the National Government of its maturing bonds; and negative FX revaluation as the US Dollar strengthened against other currencies amid the rise in US Treasury bond yields, among others. Notably, the country's external debt remains largely in the medium-to-long term maturity profile (representing 85.9 percent of total). This renders foreign exchange requirements for debt payments well spread out and manageable.

VII. FINANCIAL SECTOR

97. **The banking sector is in a strong financial condition, has manageable NG exposure[26], and is 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 6.4 percent to ₱19.8 trillion as of end-June 2021, 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.

98. **Banks remain optimistic based on latest Banking Sector Outlook Survey.** Majority of the Banking Sector Outlook Survey (BSOS) respondents project real GDP growth to be between 5.0 percent to 6.0 percent within the next two years.

Respondents identified that economic sectors such as the accommodation (hospitality/tourism) and transportation would continue to be the hardest hit sectors. However, these sectors are expected to recover in the next six months to two years. Banks have also identified loans to consumers as vulnerable and prone to weakening.

Nevertheless, the outlook on the Philippine banking system (PBS) remains relatively stable with prospects of double-digit growth in assets, loans, investments, and deposits. More banks set upbeat expectations on earnings of more than 30.0 percent growth in the next two years despite tight projections of net interest margin (NIM) of 1.5 percent to 3.0 percent and return on equity of 2.0 percent to 5.0 percent. Banks also remain positive about active participation in the money and capital markets in the next two years as evidenced by double-digit growth in investments in financial assets by more than half of respondents.

Majority of the respondents continue to expect their non-performing loan ratio (NPL) to exceed five percent in the next two years. U/KBs estimate their NPL to settle between 3.0 percent and 6.5 percent. About 54.0 percent of the respondents intend to report a higher NPL coverage ratio of more than 50.0 percent to 100.0 percent, demonstrating a more prudent stance on the part of banks. In particular, 75.0 percent of UKBs expect the NPL coverage ratio to fall between 76.0 percent and greater than 100.0 percent.

The PBS also intends to maintain the Basel ratios (e.g., risk-based capital, leverage, and liquidity ratios) at levels higher than domestic and global standards to promote institutional stability.

26 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.

Performance of the Banking System

99. **Asset expansion was attributed to upbeat lending activities and supported by stable, retail deposits.** The banking system's total assets expanded by 6.4 percent YoY to ₱19,811.2 billion as of end-June 2021.

Loans, net which constituted a major component of the banking system's resources at 52.4 percent, reached ₱10,377.9 billion representing 1.3 percent decline YoY. Financial assets other than loans, net representing the second largest component of total assets at 26.2 percent, stood at ₱5,185.8 billion and higher by 30.0 percent YoY. Cash and due from banks accounted for 17.8 percent at ₱3,518.4 billion and grew by 5.0 percent.

Asset growth was funded by deposit generation, bond issuances and capital infusion. Deposit liabilities, at ₱15,346.1 billion, continued to be the primary funding source of the banking system, representing 77.5 percent of total assets of the banking system as of end-June 2021. These deposits were mostly peso-denominated and sourced from resident individuals and private corporations.

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

100. **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 19.3 percent, followed by wholesale and retail trade at 10.9 percent, and loans for household consumption at 10.7 percent. Banks' credit risk exposures are diversified across key economic sectors and accompanied by continued improvement in their respective credit risk management systems.

101. Bank lending rates increased in the first quarter of 2021 after being in a downtrend last year. Weighted average interest rates (WAIR) for banks' total loans increased to 6.6 percent in March 2021 after registering at 6.1 percent in the previous quarter. Nonetheless, this uptick appears to be temporary as WAIR for banks' total loans again declined to 6.2 percent as of end-May 2021. It must also be noted that lending rates declined across all types of loans except for an uptick in lending rates of government loans and loans to households in May 2021.

Banks provide the lowest cost of credit to Government borrowers with an average rate of 4.1 percent as of end-May 2021. This is expected since generally, government loans bear little to low-risk of default. Meanwhile, agricultural/agrarian reform loans posted WAIR of 4.6 percent while average lending rate for loans to private corporations stood at 5.2 percent.

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 National

Government and the BSP to promote financing to MSMEs are gaining some traction. In particular, average bank lending rate for loans to micro-enterprises and SMEs showed a noticeable drop this period by 2.4 percentage points and 1.0 percentage point, respectively, compared to the onset of the crisis in March 2020.

102. **Loan quality remained satisfactory amid continued loan growth.** The quality of the banking system's loan portfolio was manageable. The non-performing loan (NPL) ratio stood at 4.5 percent as of end-June 2021, higher than the 2.6 percent ratio as of end-June 2020. Early recognition of provision for credit losses in 2020 resulted in the high NPL coverage ratio of the banking system which stood at 82.4 percent as of end-June 2021. Meanwhile, restructured loans ratio increased to 3.0 percent of the gross total loans as of end-June 2021 from 0.4 percent in the same period last year on the back of restructured loans growing by 575.3 percent YoY.

103. **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 7.6 percent to reach ₱15,346.1 billion. These deposits were mostly peso-denominated and sourced from resident individuals and private corporations. Savings deposits had the biggest share of total deposits at 48.9 percent. 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.

104. **Banks had adequate capital to support credit expansion activities.** Total capital accounts grew by 5.9 percent YoY to ₱2,510.0 billion on account of plowed back funds infused by banks from higher retained earnings a year ago.

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. As of end-March 2021, the CARs of the U/KB industry improved to 16.8 percent and 17.4 percent on solo and consolidated bases, respectively, from the previous year's 15.3 percent and 15.8 percent. Banks' risk-taking activities are supported by adequate capital which is mainly composed of common equity and retained earnings. As of end-March 2021, the common equity tier 1 (CET1) ratio of the U/KB industry improved to 15.6 percent and 16.2 percent on solo and consolidated bases, respectively, from the previous year's 14.2 percent and 14.7 percent. These U/KBs also posted a leverage ratio of 9.5 percent on a solo basis and 10.1 percent on a consolidated basis as of end-March 2021 which indicates the overall industry strength in terms of its ability to absorb unforeseen business losses, while allowing a buffer for further expansion.

105. **Banking system reported sufficient buffers to meet liquidity and funding requirements.** Liquidity of banks was ample as the liquidity coverage ratio (LCR) remained relatively stable. The U/KB industry's solo LCR of 198.0 percent as of end-May 2021 was above the regulatory minimum of 100 percent. The relatively high LCR of U/KBs indicates banks' ability to fund requirements during short-term liquidity shocks.

As of end-May 2021, the Minimum Liquidity Ratios (MLRs) of stand-alone TBs, RBs and CBs stood at 36.4 percent, 59.9 percent and 40.7 percent, respectively.

The U/KB industry's net stable funding ratio (NSFR) stood at 143.6 percent on solo basis as of end-May 2021 and 145.4 percent on consolidated basis as of end-March 2021, well-above the BSP regulatory threshold of 100 percent. These figures indicate availability of more stable funding to serve bank customers in the medium term.

106. **The banking system remained on positive bottom line.** The net profit of the banking system went up by 42.9 percent YoY to ₱122.7 billion for the semester-ended June 2021. However, annualized net profit declined by 6.6 percent YoY to ₱192.0 billion for the period-ended June 2021. Annualized net interest income (NII) increased by 1.1 percent YoY to ₱662.6 billion primarily from lending activities.

Risks from the Banking Sector

107. **Asset quality further weakened but remained manageable and within the BSP's expectations.** The imposition of the community quarantine led to an increase in the banking system's NPLs given the constrained income of households and businesses. This prompted two separate mandatory loan moratoria as provided under the "Bayanihan to Heal As One Act" and the "Bayanihan to Recover as One Act" to give borrowers temporary financial relief in this time of pandemic. Considering restrictions in economic activity, the current stock of NPLs remains within the BSP's expectations.

Importantly, with the operationalization of the FIST Act, the level of NPLs of banks would be managed through the transfer/sale of banks' non-performing assets (NPAs) to FIST corporations (FISTCs). The full operationalization of the FIST Act will increase the system's risk-bearing capacity and ability to expand investment and lending activities by freeing-up banks' capital. Even though the banking system's capital buffer is adequate, further deterioration in banks' loan portfolio, if left unchecked, would affect banks' solvency in the long-term.

108. **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.

109. **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

110. **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.

111. **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 set its strategic policy objectives aimed at (1) strengthening risk governance in the financial industry, including sustained operational resilience and promotion of the sustainability agenda; (2) fostering an enabling regulatory environment that promotes responsible innovation and a level playing field for banks and non-bank financial institutions that participate in the digital ecosystem; (3) upholding the integrity of the financial system; and (4) contributing to the deepening of the domestic capital market and the advancement of financial inclusion. Recent policy issuances and initiatives undertaken by the BSP aimed at achieving these objectives include the following:

112. **Strengthening risk governance in the financial industry.** The BSP issued relevant circulars in 2020 and 2021 that set out standards that promote continued enhancement of BSFIs' risk management systems, with due regard for proportionality:

- **Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/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. Following the standards set forth on the qualifications and responsibilities of the board and management, the issuance provides 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.

- **Amendments to Regulations on Financial Audit of Banks/Non-Bank Financial Institutions.** The BSP recognizes that external auditors play a vital role in contributing to the conduct of effective supervision and sustaining the confidence of the public in the financial system. In this light, the amendments to regulations on financial audit of banks and non-banks aimed to enhance the quality of information channeled to the supervisory process and ultimately promote fairness, transparency, and accuracy in financial reporting.

- **Amendments to the Regulations on the Foreign Currency Deposit System.** The revised regulation aims to align the Manual of Regulations on Foreign Exchange Transactions (FX Manual) with the licensing and enforcement frameworks under the MORB and to provide flexibility in managing liquidity risk with simplified compliance with the FX asset cover requirements of banks.

- **Amendments to the Regulations on Treasury Activities of BSFIs.** In accordance with the board's duty to articulate acceptable, and unacceptable activities, transactions and behaviors, it must adopt a code of conduct and standards of practice that are binding on the Treasury unit, especially personnel involved in risk-taking. The code and standards should highlight and provide specific guidance on upholding market integrity and professionalism.

- **Corporate Governance of Trust Corporations.** The BSP issued amendments to the regulations on Corporate Governance of Trust Corporations clarifying the duties and responsibilities of the Board of Directors.

- **Sustainable Finance Framework.** The BSP adopted the Sustainable Finance Policy framework that sets out the expectations of the BSP on the integration of sustainability principles, including those covering environmental and social risk areas in the corporate governance and risk management frameworks, as well as in the strategic objectives and operations of banks. The BSP recognizes that environmental, including climate-related, and social risks pose risks to the stability of the financial system and therefore should be managed accordingly. The Framework also laid down the minimum expectations on the Environmental and Social Risk Management System that is commensurate to the nature, size and complexity of operations of banks. Pursuing the sustainability agenda protect and promote the interest of the public and future generations by contributing to the mitigation of climate related risks and the attainment of the United Nations Sustainable Development Goals (SDGs).

- **Designated Clearing and Settlement Banks.** The BSP issued prudential requirements for designated clearing and settlement banks for purposes of compliance with directors, officers, stockholders, and their related interests (DOSRI) regulations, as well as foreign currency deposit unit (FCDU) asset cover and minimum capital requirements.

- **Guidelines on Reputational Risk Management.** The BSP adopted guidelines on reputational risk management which set out the supervisory expectations for BSFIs on the identification, assessment, and management of reputational risks that are commensurate to their size, nature, and complexity of operations, overall risk profile, and systemic importance.

- **Guidelines on Know-Your-Employee (KYE) Policies.** The BSP issued guidelines that aim to strengthen KYE policies and practices and tighten controls related to confirmation of deposit accounts, as part of the overall operational risk management system of BSFIs. The issuance highlights the importance of continuing assessment of employees' fitness and propriety to perform the responsibilities required of the position. BSFIs are expected to leverage on existing controls, available reports, and other relevant information to facilitate the assessment. The new policy also identified certain behaviors that serve as red flags warranting further scrutiny as part of personnel's performance evaluation.

- **Guidelines on the Management of Liquidity Risk by Islamic Banks and Islamic Banking Units.** The BSP adopted a liquidity risk management framework for Islamic Banks (IBs) and Islamic Banking Units (IBUs). The regulatory issuance is anchored on the existing liquidity risk management framework for conventional banks with additional provisions to cover the specificities of Islamic banking. The aim is to create an enabling environment that will allow Islamic banks to operate alongside the conventional banks under the same regulatory approach, taking into consideration the unique features of Islamic financial activities/transactions.

113. **Fostering an enabling regulatory environment that promotes responsible innovation.** By and large, the BSP aims to foster an enabling regulatory environment that promotes adoption of beneficial and responsible technology, deepening of the domestic capital market and savings mobilization, and development of a safe, efficient and reliable payment system.

- **Payment System Oversight Framework.** A safe and efficient national payment system is crucial to the smooth functioning of financial markets and the stability of monetary and financial systems, as well as instrumental in achieving and sustaining inclusive economic growth. Thus, the BSP adopted the Payment System Oversight Framework for the effective and efficient governance of the national payment system.

- **Digital Payments Transformation Roadmap.** The COVID-19 pandemic has accelerated the use of digital payments under the "New Economy" environment. Parallel to this, the BSP has designed a three-year Digital Payments Transformation Roadmap with a twin goal by 2023. First, driving the share of digital payments to 50 percent of total retail transactions by offering faster and more affordable payment options that provide greater convenience. Second, expanding the financially included to 70 percent of Filipino adults by onboarding them to the formal financial system through the use of payment or transaction accounts. The BSP's priority policy initiatives aim to broaden the use of digital payment platforms as well as ensure that these are supported by robust infrastructure and governed by sound data standards.

  Related to the second goal of the Digital Payments Transformation Roadmap, the BSP has approved the inclusion of "digital banks" as a distinct classification of banks and the corresponding guidelines for their establishment. Digital bank is defined as a bank that offers financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branches.

- **Guidelines for Virtual Asset Service Providers (VASP).** The BSP approved the rules and regulations governing the operations of VASP or entities that facilitate financial services through the conduct of virtual asset (VA) activities, to cover new business models and activities. The said guidelines amended the regulations on virtual currency exchanges (VCE) that were issued in 2017.

  Open Finance Framework. The BSP approved the guidelines on Open Finance Framework which is seen as a key enabler for digital transformation and financial inclusion. The Open Finance Framework promotes consent-driven data portability, interoperability, and collaborative partnerships between financial institutions and fintech players. Consumers will have the power to grant access to their financial data that will shape a customer-centric product development objective. The framework covers different financial institutions and a broader array of financial products such as, but not limited to, banking products and services, investments, pensions, and insurance.

114. **Upholding the integrity of the financial system.** The BSP has raised the bar for financial reporting and transparency, intensifying the assessment of the effectiveness of AML/CFT risk management systems and consumer protection mechanisms.

- **Money Laundering (ML)/Terrorist Financing (TF) Risk Assessment System (MRAS).** The MRAS is a tool to assess the ML/TF and proliferation financing (PF) risk profile of BSFIs, taking into account their risk and context, business models and operations, among others. The MRAS provides the platform for assessing the level of inherent ML/TF/PF risks and the quality of risk management and self-assessment systems of BSFIs, to arrive at their net ML/TF/PF risk profile. The net results will serve as a basis for determining the frequency and scope of examinations as well as the type, intensity, and intrusiveness of supervisory activities.

- **Guidelines on Correspondent Banking Relationships.** These guidelines articulate the specific regulatory expectations with respect to different types of correspondent banking relationships to enable banks to have improved understanding and management of ML and TF risks associated with correspondent banking relationships.

115. **Deepening of Domestic Capital Market.** The BSP will continue to work with relevant government agencies in instituting measures that will help deepen the domestic capital market and broaden investor access to securities markets.

- **Amendments to the Regulations on Investment Management Activities.** The BSP reduced the minimum size of an account and expanded the securities eligible as investment outlet for commingled funds under investment management.

- **Exclusion of Debt Securities Held by Market Makers from the SBL.** Debt securities held by market makers are excluded from the single borrower limit for an identified relief period.

- **Revised Personal Equity and Retirement Account (PERA) Rules.** To streamline the PERA investment process and improve operational efficiency, the Revised PERA Rules introduced the PERA cash self-custody arrangement. Under this arrangement, the Contributor will have the option to be the custodian of his own PERA funds and income. The amendment also granted the concerned regulatory authority the flexibility to issue rules and regulations with respect to the accreditation requirements for custodians and administrators and to prescribe the basic security deposit for the faithful performance of Administrator’s duties.

- **LIBOR Transition Plan.** The BSP expects every BSFI with LIBOR or LIBOR-related exposures to have a viable transition plan in place to ensure that the cessation of LIBOR does not disrupt its operations and the efficient provision of services to its clients and other market counterparties. This transition plan should be anchored on a clear understanding on the part of the BSFI of its exposures and risks. The plan shall likewise include strategies for actively reducing reliance on LIBOR sufficiently in advance of the discontinuation of the benchmark.

- **Amendments to the Regulations on Securities Custodianship and Securities Registry Operations.** The BSP approved the amendments to the regulations on securities custodianship and securities registry operations, which aim to simplify the licensing process and expand both the client base and the number of financial institutions offering said services.

116. Advancement of Financial Inclusion Agenda. The BSP will continue to support the National Government's financial inclusion agenda by providing for an enabling regulatory environment that will promote the design of financial products and services that are suited for the underserved segments of the population with the end view of onboarding these customers to formal financing channels.

- **Amendments to the Rules and Regulations on the Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit.** The BSP, along with the Department of Agriculture (DA) and the Department of Agrarian Reform (DAR), approved the amendments to the IRR of Republic Act (R.A.) No. 10000, otherwise known as "The Agri-Agra Reform Credit Act of 2009," to improve financing to the agrarian reform, fisheries, and agricultural sector. The amendments to the IRR of R.A. No. 10000 will broaden access of the agrarian reform sector to bank financing, streamline banks' process of investing in agri-agra eligible securities, and promote innovative financing solutions, within the legal ambit of R.A. No. 10000.

- **Mandated Socialized Credit.** The BSP approved the adoption of the Implementing Rules and Regulations of R.A. No. 10878 (An Act Strengthening and Institutionalizing Direct Credit Support of the Land Bank of the Philippines to Agrarian Reform Beneficiaries, Small Farmers and Fisherfolk). The Land Bank of the Philippines (LBP) shall allocate at least five percent (5%) of its regular loan portfolio for socialized credit to qualified small farmers, small fisherfolk and agrarian reform beneficiaries through qualified conduits. Further, the LBP may offer and issue common and preferred shares of stocks to agrarian reform beneficiaries, small farmers and fisherfolk through their organizations, cooperatives; federations and cooperative banks; development partners and strategic investors such as multilateral and bilateral institutions; and rural banks and their associations.

- **Islamic Banking.** With the passage of R.A. No. 11439, the BSP is clothed with clear authority to issue broader set of rules and regulations on Islamic banking with the supervisory and regulatory powers of BSP over Islamic banks. Implementing regulations were issued covering the licensing of Islamic banks and Islamic banking units of conventional banks (IB/IBU) and the BSP's prudential expectations on the Shari'ah governance framework required for the IB/IBU.

- **Distribution of UITFs.** The BSP approved the guidelines that will allow trust corporations to distribute their UITFs through third parties, specifically individual and institutional agents. This initiative supports the BSP's advocacy to promote financial inclusion by broadening access points to innovative financial products and services.

117. **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)

Social Security Institutions (SSIs)

118. The total assets of the Government Service Insurance System (GSIS) as of 31 December 2020 is at ₱1,420,538,895,879 with net income amounting to ₱62,761,152,051. The GSIS posted positive surplus[27] for 2020 at ₱1,319,626,455,243.

Table 12. Philippines: GSIS Cash Surplus (Deficit) in IMF Format FY 2020
(In Million Pesos)

PARTICULARS	2020 FULL YEAR	
REVENUES	**102,978**	**212,312**
Members Contributions (S-1)		149,701
of which Contributions (S-1A)	80,235	
Investment Income and Other Earnings (S-2)		62,611
of which from Holding of National Government Securities (S-2A)	22,743	
EXPENDITURES		**182,098**
Benefits (S-3)		123,006
Operating and other Expenses (S-4)		12,611
Policy Lending to Public and Private Sector (S-5)		46,480
SURPLUS (+)/DEFICIT (-)		**30,214**

119. The GSIS, by virtue of Republic Act No. 656, as amended by Presidential Decree No. 245, is mandated to insure all properties, assets where government has insurable interest. For the period January 1, 2020 to December 31, 2020, the Total Sum Insured (TSI) across all lines of GSIS is at ₱1,530,081,551,872.19.

Pandemic Response

120. GSIS increases loan portfolio. The financial impact of the COVID-19 pandemic to businesses and individuals has been quite considerable. However, GSIS turned this challenge into an opportunity to increase its income by introducing three (3) new loan products which are responsive to the needs of the present times. These new loan products are the Multi-Purpose Loan (MPL), the Computer Loan and Educational Loan.

121. Bayanihan Fund for Frontliners. 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

27 Total Appropriated and Unappropriated Surplus

family/beneficiary to receive a lump sum payment equivalent to 150 percent of the annual salary of the deceased member.

On top of this regular life insurance policy, GSIS also established the ***Bayanihan Fund for Frontliners*** (BFF) which provides an additional ₱500,000 cash benefit to government medical frontliners who succumbed to COVID-19. This is GSIS's way of honoring our medical frontliners in government who made the ultimate sacrifice in the fight against COVID-19.

In 2020, GSIS released a total of P7.5 Million in additional BFF cash benefits to the families of the 15 health professionals who died in the line of service.

122. **Adoption of Ligtas Covid Centers.** The GSIS, in coordination with the Department of Health (DOH) and the Department of the Interior and Local Government (DILG), implemented the **Adopt-a-Local Isolation and General Treatment Areas (LIGTAS) COVID Centers.**

Under the "Adopt-a-LIGTAS COVID Center" program, GSIS granted fifteen (15) LIGTAS-COVID Centers financial assistance amounting to ₱500,000 each to help defray the costs of maintaining and operating these quarantine centers all over the country.

Risk Position on Pending Bills

123. **Pension Reform for MUP Personnel.** GSIS remains firm in its position that there should be no "co-mingling" of funds, and that any pension fund to be established for MUP should be separate and distinct from the existing Social Insurance Fund (SIF) for the civilian employees in government.

We also note that further meetings need to be conducted between policymakers and various stakeholders in order for all parties to arrive at a consensus relative to MUP Reform bill.

124. **Lowering of Optional Retirement Age from 60 to 56.** The GSIS has expressed its reservations on this proposal as lowering the optional retirement age would have a negative impact on the actuarial life of the SIF of the GSIS. Setting an earlier retirement age would shorten contributions (less collection) and would lengthen the period of benefit payments (more disbursements). This change in the basic design of the retirement package entails additional cost and would require additional increase in reserves in order to preserve the actuarial life of the SIF.

Table 13. Philippines: GSIS Fund Life Scenarios
(at 7.0 percent Interest Rate Assumption and at 5 percent Annual Salary Increase Assumption)

Scenarios	Retirement Age		Fund Life	Additional Reserve Requirements
	Optional	Compulsory		
Base Case	60	65	Oct 2041	
Scenario 1 (100% preference)	56	65	Nov 2038	₱332.36 B
Scenario 2 (50% preference)	56	65	May 2039	₱255.37 B

Actuarial study shows that even under status quo retirement ages (Base Case Scenario), there is already an estimated impending shortfall resulting to a 2041 fund life.

Scenario 1 assumes that those expected to withdraw/retire in the 56 to 59 age bracket and already eligible for retirement were all subjected to optional retirement. Scenario 2 was further explored to simulate member's preference to optionally retire by assuming a 50 percent availment scenario for this particular group.

Lowering the optional retirement age from 60 to 56 while maintaining the compulsory retirement age at 65 would decrease the fund life by about 2 years and 11 months for Scenario 1 and about 2 years and 5 months for Scenario 2.

The 21 percent contribution rate rests on the current optional and compulsory retirement ages of 60 and 65, respectively. Any lowering in the retirement ages, or any benefit enhancement for that matter, especially those involving pensions which are long-term liabilities, would increase costs. Such costs will necessarily be absorbed by the program, making the program more expensive for those members who will still be contributing, as they will bear the brunt of the costs; and for the GSIS as administrator, since it will increase the SIF's unfunded liabilities.

With the proposed lowering of the retirement age, the support ratio, i.e., the number of active contributors supporting a pensioner, would further decline.

Table 14. Philippines: GSIS Support Ratio

Year	Base Case	Scenario 1	Scenario 2
2014	5.50	5.50	5.50
2015	5.41	5.41	5.41
2016	5.36	5.36	5.36
2017	5.34	5.34	5.34
2018	5.24	5.24	5.24
2019	4.9351	4.5407	4.303
2020	4.8773	4.4584	4.3492
2021	4.8262	4.3908	4.2848
2022	4.7282	4.2972	4.1876
2023	4.6722	4.2359	4.1206

The support ratio is a crucial indicator since it shows the decline in number of active contributors supporting pensioners which may lead to sustainability and viability issues in the long term, to the detriment of the next generation of active members and pensioners.

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

Furthermore, in an article from the Nikkei Asian Review, June 2019 edition, the following was cited:

Asia's changing views on retirement

COUNTRY	RETIREMENT AGE	CURRENT TRENDS
Singapore	62	Government considering raising retirement age
Thailand	60	Cabinet approved extending retirement age for civil servants
Philippines	60	Retirement age for civil servants to be lowered to 56
Japan	60	Government encouraging companies to allow employees to work until 70
Vietnam	55 Women / 60 Men	Government proposed raising retirement age to 62 for men, 60 for women

Note how ASEAN policymakers are already beginning to address the aging problem, which runs counter to the proposal in the Philippines. Population ageing has made it imperative for Asian countries to enact pension reforms. The governments of Singapore, Thailand, Japan and Vietnam have taken the initiative of raising the retirement age; only the Philippines is going against this trend.

Pension reform is a difficult process that requires political will and commitment, as well as informed communication with the public, because the alternative – not to reform – will be far costlier.

The sheer speed and scale of Asia's demographic transition adds a sense of urgency to the policymakers' tasks. Because of the long-term nature of pension liabilities, the policies implemented by today's government will influence the ability of today's workers to adequately prepare for their retirement, as well as the ability of the public pension system to cope with sustainability issues of the fund.

125. Granting additional benefits to Barangay Health Workers. The proposed bill seeks to provide insurance coverage to Barangay Health Workers (BHW) including but not limited to, 1.) temporary and permanent disability, 2.) double indemnity, 3.) accident insurance, 4.) death and burial benefits. The said bill also provides retirement and pension benefits to all BHWs who have rendered at least thirty (30) years of service.

The compulsory GSIS membership of BHWs shall entail considerable funding requirements on the part of government. As compulsory GSIS members, BHWs shall be required to pay premium contributions amounting to twenty-one percent (21 percent) of the worker's monthly salary. Nine percent (9 percent) shall be paid by the employee (BHW) while the employer (LGU) shoulders the remaining twelve percent (12 percent). Note that the bill provides that the national government shall subsidize fifty percent (50 percent) of the employer contributions of fourth, fifth and sixth class municipalities.

In order to be entitled to pension, a minimum of 15 years of creditable service, and a minimum pensionable age of 60 years are basic requirements. Any proposal to extend membership to BHW should therefore have a corresponding thorough study of the budgetary requirement involved and how the benefits, particularly pension benefits, will be funded to ensure sustainability.

126. **Proposed Magna Cart of Benefits for the Officers and Personnel of the Philippine Drug Enforcement Agency (PDEA).** The proposed bill provides optional retirement at age 55 for the officers and personnel of PDEA provided they have rendered at least 15 years of service. Among others, it also provides for the receipt of all retirement benefits to surviving legitimate spouse and dependents; and also provides for the additional payment of hazard pay.

GSIS maintains its position that the optional retirement age should be 60 with at least 15 years of service with paid premiums and the compulsory retirement age should be 65 years of age with at least 15 years of service with paid premiums. A lower retirement age for PDEA agents will have a negative effect on the actuarial life of the pension fund of GSIS. Further, the survivorship benefits granted to the beneficiaries of the deceased PDEA agents should be harmonized with the current policies of GSIS so as not to create confusion and inequality with other GSIS members.

127. **Voluntary Contributions of Elective Officials after their term.** The bill seeks to provide elective officials the option to continue their GSIS membership by allowing them to pay premium contributions even after their terms of office. In this way, elective officials who have completed their three (3) terms shall be able to complete the minimum fifteen (15) years length of service and become eligible to receive pension benefits.

RA 8291 (GSIS Act) clearly does not allow "voluntary membership" to GSIS and that only active-serving government employees are qualified for GSIS membership.

128. **Foreign Affairs Retirement and Disability Benefits.** The proposed bills provide for the automatic adjustment of the retirement pension of Department of Foreign Affairs (DFA)

retirees under Republic Act No. 7157 (Foreign Service Act of 1001). It also grants additional entitlement to disability, death and survivorship benefits in the same manner as the GSIS Act. The source of funds shall be the DFA's savings and thereafter, DFA's consular income.

Particularly, the bills propose the adjustment of monthly pension at the same as any future or subsequent increase in the salary grade of the same rank the retiree retired from and shall be applied retroactively. Moreover, in case of death of a DFA retiree, the surviving dependent spouse and children shall be entitled to receive the adjusted retirement benefits that the deceased was receiving or entitled to receive.

The indexation of the pension to the current salary of incumbents has been proven to be a financially unviable and unsustainable pension scheme, as demonstrated by the MUP retirement scheme. The proposed indexation of pension for DFA personnel is thus financially untenable and shall most likely result to pension pay-outs overtaking pension contributions in the near future.

129. Voluntary Contributions of Members. The proposed bill provides a member who separates from the service after he has rendered at least three (3) years of service, the option to continue paying the member and employer monthly contributions including life insurance premiums.

Again, we reiterate that RA 8291 (GSIS Act) does not allow "voluntary membership" to GSIS. Only active-serving government employees are qualified for GSIS membership.
Moreover, voluntary contributions will expose GSIS to financial risk, as well-informed contributors can contribute a minimal amount and then radically increase their contributions for the projected last three years since such will be the basis for the computation of their pensions.

B. <u>PUBLIC-PRIVATE PARTNERSHIP (PPPs) AND OTHER CONTINGENT LIABILITIES (CLs)</u>

130. The stock[28] of contingent liabilities arising from PPPs for 2021 is estimated to be about P456.2 billion, while the estimated flow[29] is P60.4 billion. The increases in valuation are attributable mainly to newly awarded projects and further updates to the project database and valuation methodology. Sizeable contributions to the increase are from big ticket projects such as the MRT Line 7, LRT 1 Extension, and New Manila International Airport which are projects under construction.

28 "Stock" is an estimate of the aggregate amount of contingent liabilities incurred up until a specific point in time.

29 "Flow" refers to the amount of contingent liabilities that may materialize within a specific interval of time taking into consideration a project's risk factors.

131. A total of 18 major ongoing national public-private partnership contracts ("the subject projects") with a combined project cost of ₱1 trillion were signed from 2008-2020. Financial exposure pertains to the following liabilities and equity contributions:

Liabilities of agencies	Equity contributions of IAs	Liabilities of project proponents

• Firm liabilities of implementing agencies (IAs)
  • owed to project proponents
  • owed to third-parties
• Contingent liabilities of IAs
  • Failure to fulfill obligations
  • Material adverse government actions
  • An act of a third party
  • Event of default
  • Force majeure
• Liabilities for contract variation
• Other liabilities of IAs claimed by the proponent
• Contingent liabilities of guarantor- agencies (GAs)
• Liabilities to the PDMF
		• Firm liabilities of project proponents
		  • Fixed concession fee
		  • Variable concession fee
		  • lease payment
		  • Fees collected from users and then remitted to the IA
		• Contingent liabilities of project proponents
		  • obligations covered by a performance security
		  • obligations covered by liquidated damages
		  • Charge for failure to achieve a targeted KPI
		  • revenue share that is contingent on the project reaching a PIRR target

132. The following insights were gained from the comparative analysis of the financial exposure of agencies in these 18 projects, as of March 31,2021:

a) The total firm liabilities of implementing agencies (IAs) to project proponents that appear in 7 of the 18 contracts amount to ₱172 billion over the life of the contracts. Of this amount, ₱23 billion has been paid as of March 31, 2021.

b) The estimated total amount of the share of IAs in project expenses that are owed to third parties is ₱46 billion. A total of ₱9.3 billion has been paid.

c) So far, only one project proponent has filed claims for compensation with a total amount of ₱7.4 billion for failure to fulfill an obligation.

d) There could be additional claims for compensation given that due dates of unfulfilled obligations have lapsed in 4 contracts.

e) Given the actions taken by various government agencies during the pandemic, there could be claims due to material adverse government action (MAGA). There could also be claims from those PPP contracts that consider pandemic as a force majeure.

f) The PPP Center does not foresee any contract being terminated this year due to an event of default. No notice of violation has been filed by any project proponent. Even if one were to be filed later in the year for a curable event of default, the lengthiness of the ensuing curing period would make the probability of termination extremely low. Furthermore, the PPP Center's assessment of current circumstances is that the probability of termination due to any of the non-curable events of default in the 18 contracts is very low. The same cannot be said for events of force majeure.

g) Among the 18 projects, there is one contract where the performance of an IA is guaranteed by the Department of Finance or by the Republic of the Philippines.

h) The liability of an agency to reimburse the Project Development and Monitoring

Facility does not apply to the subject projects as all of these were awarded.

i) None of the 18 contracts required an equity contribution from an IA.

j) In contracts where the project proponent has liabilities to an IA, we have been notified of the following payments:

   i. ₱38.3 billion for firm payments; and
   ii. ₱270 thousand as payment for liquidated damages.

k) There is 1 contract where the share in revenues of the agency is contingent in nature. The share of Department of Transportation in regulated aeronautical fees is contingent on the project internal rate of return (PIRR) reaching 7.03 percent. Furthermore, the share in revenues, which is accumulated in an escrow account, could be reduced if the PIRR falls below target.

Lessons for future PPP Contracts

133. Comparing contracts enabled the identification of ways to minimize financial exposure.

a. Build-transfer-and-operate, build-and-transfer, and build-lease-and-transfer contractual arrangements expose IAs to high financial exposure. Minimize such exposure by bidding projects with these contractual arrangements competitively.

b. Avoidance or minimization of payments for penalties:

   1. Commit only to obligations and due dates that are within the IA's capability to fulfill.
   2. Consider allocating the risk of brownfield assets requiring restoration works to the project proponent.
   3. Plan and monitor obligations and due dates to avoid penalties.
   4. Seek remedies other than payment of penalty for failure to fulfill obligations. Alternative modes of compensation should not be at the sole discretion of the private party.
   5. Put a cap payment on penalty payments.

c. Minimizing payments for MAGA

   1. Provide a materiality threshold for the impact of MAGA. The materiality threshold should be unambiguous – the impact to be compensated has to be clear and the materiality threshold for payment to be made, should be a specific amount.
   2. Put a cap on the payment for MAGA.
   3. Insulate IAs from MAGA attributable to local, judicial or legislative agencies.
   4. Exclude from MAGA, actions taken by government to protect public health and safety.

d. Managing the risks of paying for contract termination

   1. Establish a clear policy on termination payment – events of default and the costs that would be reimbursed.
   2. The occurrence of a pandemic should be considered as an event of force majeure in any PPP contract.
   3. For termination payment arising from a project proponent's event of

default:

a. Reimbursement of the cost of commercial assets, even if partially, should be excluded. This should be true even for IA's event of default
b. Payment of future cash flows from commercial activities should be excluded.
c. Any reimbursement for cost of works should be restricted to the leveraged book value of the core assets (excluding commercial assets).

e. Revenue sharing in contracts

1. To maximize revenue, share in concession contracts, use revenue share as a bid parameter. However, structure the contract to ensure affordability of public services.
2. Revenue share agreements are typically structured as firm payments. Therefore, consider the benefit for government of having revenue share that is contingent on a project achieving a target project internal rate of return.

C. LOCAL GOVERNMENT UNITS (LGUs)

134. The BLGF earlier targeted ₱307.08 billion locally sourced revenue collections for all provincial, city, and municipal treasurers for FY2020, but this was adjusted to ₱193.04 billion to consider the effects of the Covid-19 pandemic on revenue generation capacity of LGUs. For FY2020, the aggregate own-source revenues30 of LGUs reached ₱244.19 billion, surpassing by 127 percent the full-year target set by the BLGF for local treasurers. This collection performance may be attributed to the easing of community quarantine guidelines, resumption of business operations, the extension of payment deadlines, and adoption of online and alternative payment facilities, among others. Tax revenues accounted for 78 percent of the local revenue source of LGUs amounting to ₱189.86 billion, of which ₱119.31 billion came from local business tax collections. Non-tax revenues, on the other hand, accounted for 22 percent or ₱54.33 billion.

135. With the passage of RA No. 119494 or the Bayanihan to Recover as One Act, the DOF issued Department Circular (DC) No. 003.2020 dated 23 October 2020, for LGUs to properly and uniformly implement the moving of the statutory deadlines and timelines for the payment of taxes, fees, and other charges required by law, and the grant of any benefit, to ease the burden on individuals under community quarantine. The said DC was effective until 19 December 2020, but the LGUs may, through their Sanggunian, for a justifiable reason or cause, extend the time for payment of such taxes, fees, or charges without surcharges or penalties, but only for a period not exceeding six (6) months

30 Based on the Statement of Receipts and Expenditures reports of LGUs as of 21 October 2020. Excludes Other Receipts (Other General Income) of the LGUs which are not included in the target set by the BLGF

according to Section 167 of the Local Government Code (LGC). The collection performance for Q4 FY2020 that reported by LGUs by 31 March 2021 already reflected all tax collectibles that have been earlier affected by such deferment required by law.

136. For FY2021, the BLGF initially set the local revenue collection targets of all provincial, city, and municipal treasurers at ₱223.89 billion. Due to the COVID-19 pandemic and the slowdown in business operations in FY2020, which is the base year for assessments of most local taxes for FY2021, the initial revenue target has been reduced by 30 percent from the original medium- term program of ₱321.60 billion for FY2021.

137. As of 31 December 2020, 86 percent or ₱31.97 billion[31] of the ₱37.02 billion Bayanihan Grant for provinces, cities, and municipalities were reported by local treasurers to have already been utilized by the LGUs. Local governments were further given flexibility in their financing requirements under Bayanihan II law, using the available idle trust funds, in addition to their Local Disaster Risk Reduction and Management Fund (LDRRMF) and Local Development Fund (LDF). The amount that the LGUs have transferred from trust fund to general fund amount to ₱19.46 billion of which ₱18.76 billion or 96 percent was already utilized. Local governments were also given ₱2.00 billion interest subsidies for loans with the Land Bank of the Philippines (LBP) and the Development Bank of the Philippines (DBP) until December 2022.

138. For FY2022, with the rollout of vaccines starting FY 2021 and the anticipation that the economic activity will continue to recover with the gradual easing of quarantine protocols, local revenues are expected to reach ₱239.59 billion, still lower than the revenues under normal circumstances. This estimate considered the projected national economic growth outlook. LGUs' historical collection performance particularly that next year is an election year, wherein decrease in local collections is observed during the said period, and the possible impact of SC ruling on the Mandanas-Garcia cases in the revenue generation effort of the LGUs.

139. Subsequently, it is estimated that the LGUs may generate ₱275.49 billion and ₱292.02 billion for FY2023 and FY2024, respectively. These projections would be adjusted once the full year FY2021 data and other NG's economic projections due to the pandemic become available.

140. Relative to the Covid-19 vaccination program, in line with RA No. 11525, the LGUs would need to optimize available financing resources from their regular incomes, especially the use of their LDF and LDRRMF, including the Quick Response Fund (QRF), if the LGUs intend to procure directly the Covid-19 vaccines. The LDRRMF can be considered as a priority source in funding the cost of vaccines. As provided in the LGC of 1991, the LDF amounting to not less than five percent (5 percent) of the estimated revenue from regular sources shall be set aside to support disaster risk management activities. The lump sum

31 Based on the reports gathered by the BLGF from the Local Treasurers on the actual utilization of the Bayanihan Grant.

allocation of 30 percent of the LDRRMF is for Quick Response Fund (QRF), which can be used to purchase Covid-19 vaccines, since the latest DBM rules provide that the QRF can be used for epidemics or complex emergencies, and RA 11469 even lifted the QRF cap of 30 percent during state of national emergency. Using the 2022 national tax allotment (NTA) alone as basis, the combined minimum estimated full- year LDRRMF of all provinces, cities and municipalities is roughly ₱38.36 billion (₱11.03 billion for provinces, ₱11.03 billion for cities and ₱16.30 billion for municipalities). The 30 percent QRF part is ₱11.51 billion of which ₱3.31 billion are for provinces, ₱3.31 billion for cities, and ₱4.89 billion for municipalities.

141. Moreover, in FY2022, LGUs are expecting already to receive higher transfers from NG in the form of 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, wherein LGUs will have 40 percent share from all national taxes collections.[32] 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.

142. In terms of LGU borrowings, the BLGF issued 226 certificates for the first semester of 2021, which is 148% higher than that issued in 2020 for the same period. Seven percent (7%) of the total loan amount of LGUs that applied are for COVID-19 response. The certificates of NDSC/BC issued have a total loan amount of ₱65.213 billion and a total borrowing capacity of ₱152.007 billion, indicating a 42.90% BC utilization. This level of utilization is consistent with the average utilization for the past three years. The BLGF has been continually advising LGUs to review its priority projects to be funded by the loan and giving them caution in light of the anticipated medium-term economic effects of the COVID-19 crisis on their local revenue generation and overall fiscal position. This is to ensure that the statutory limitations under Sec. 324b of the Local Government Code will not be breached during the repayment period.

143. Compared to the average of the past five years, more LGUs were issued with borrowing certifications in the first semester of 2021 across all types of LGUs, with significantly higher proposed loan amount. Municipalities' proposed loan amount is almost five times higher the five-year average, while those of the cities are three times higher. Provinces' borrowing showed a ₱2.90 billion difference than that of the five-year average, while Barangays showed an ₱8.80 million difference. Continuous applications of LGUs to finance their priority development projects is still anticipated in the second semester of 2021. Meanwhile, a drop in the number of borrowings compared to the year prior may be observed during election years based on data trends.

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

Fiscal Risks

144. The Covid-19 pandemic has continuously constrained local economic activity, but in varying degrees, and it is expected that LGUs would have lower local collections for FYs 2021-2022. Considering the current status of the local economy, it is expected to have negative impact on LGUs' local collection efforts, particularly in highly urbanized and non-IRA dependent LGUs that rely more on their local revenues, especially on local business tax, because the gross receipts of business establishments are expected to decline in FY2020 and FY2021. Moreover, most LGUs would be more reliant on IRA from the NG which is currently at 62 percent based on the average dependency for the past years. Adding to the LGUs IRA dependency in FY2022 is the effect of the SC decision on the Mandanas and Garcia Cases, whereby there will be an increase in IRA of LGUs and lower local revenue collections.

145. The anticipated increase in the FY2022 NTA of the LGUs is expected to cause fiscal strain to the NG considering that the shares will be based in the FY2019 national tax collections which is pre-pandemic, while the NTA would be sourced from the FY2022 NG funds with limited fiscal space due to the continuing impact of the Covid-19 pandemic. On the LGUs' side, this could however make them more complacent in their local revenue generation efforts as they expect to receive more shares from NG.

146. Along with the higher transfers from NG is the proposed full devolution of several functions of LGUs, for fiscal sustainability and as a measure to mitigate the impact of the SC decision to the NG, as provided under Executive Order No. 38[33]. However, the anticipated increase in the LGUs adjusted IRA might be short-lived as the NTA transfers from NG to LGUs by FY2023 will be based on FY2020, where the decline in NG collections is expected. Moreover, the slower economic growth and uncertainty on how long the economic recovery will take place could result to a funding gap for the devolved functions in the long-run.

147. With the implementation of the SC ruling on NTA in FY2022, there is still an uncertainty on the readiness of the LGUs relative to the implementation of the proposed full devolution of functions. This could result to underutilization of the funds and poor public service delivery to their constituents, and consequently, for the NG to provide those services again.

Risk Mitigating Measures

148. It is imperative to assess what functions at the NG can be devolved to the LGUs given the higher fiscal sources through IRA and its growing surplus prior to the pandemic. Section 17 of the LGC of 199 mandated the devolution of several functions to LGUs such as public works and infrastructure, agricultural research, school building programs,

33 Full Devolution of Certain Functions of the Executive Branch to Local Governments, Creation of a Committee on Devolution, and For Other Purposes.

among others, however, NGs continue to implement most of these functions. For fiscal sustainability, the devolved functions must be taken out from the national agencies to empower the LGUs to assume their responsibility given the fiscal space provided to them.

149. To ensure the readiness of the LGUs in the devolution of functions and prepare them for the greater role and responsibilities they are expected to assume, proper capacity building activities and programs on devolved functions, revenue generation and fiscal management must be provided by the LGU oversight agencies. However, with the current situation and community quarantine restrictions, providing technical support and training activities would be limited to online consultations.

150. Recognizing the urgency of Covid-19 response and recovery programs of the LGUs, the use of credit financing should be considered carefully to ensure fiscal sustainability, and that the programmed capital expenditures, as well as emerging or pandemic-response investments, such as vaccination facilities, logistics support, heavy equipment, etc. may be availed as part of the usual loans or part of the interest subsidy program of LBP and DBP.

151. To facilitate effective monitoring of LGU loans, an agreement has been reached between the BLGF and the BSP to directly provide to the latter their copy of issued Certificates of NDSC/BC through electronic means. This is to facilitate the immediate issuance of MB Opinion to borrowing LGUs. The BLGF is also developing an online solution to make the end-to-end processing of LGU borrowing certification entirely done electronically, and to further support the Memorandum of Agreement on information exchange signed by the DOF and the BLGF with eight (8) lending institutions commonly tapped by LGUs for credit financing.

152. To support the goal of further increasing NG and LGU revenue generation, the BIR and the BLGF are developing policies and systems to facilitate the exchange of information between the LGUs and the BIR. A Technical Assistance (TA) grant from the Asian Development Bank (ADB) is being requested and the draft Terms of Reference for the IT developer of the portal as a platform for the data sharing between BIR and LGUs is already being finalized.

153. With the tax incentives and relief measures provided by the LGUs to businesses and their constituents, it is important to add more programs in which recovery measures and normalization of business operations are the main objectives. Given the effects on various industries, especially tourism/travel, transportation, among others, the LGUs must stimulate other livelihood programs to revitalize the local economy and to mitigate the increase in unemployment of its constituents.

154. Package 3 of the Comprehensive Tax Reform Program, or the proposed Real Property Valuation and Assessment Reform Act (RPVARA), which is pending in Congress, as well as the recently started Local Governance Reform Project (LGRP) of the BLGF, are expected to contribute in improving local revenue generation in the medium- to long-term and as post- Covid-19 fiscal measures to support the LGUs. Efficiency and uniformity in the enforcement of guidelines and decisions on revaluation of properties through these measures will make property valuation efficient, compliant with internationally accepted standards and best practices, improved property tax collections. RPVARA will aid in the acceleration process of infrastructure projects, minimizing disputes on the use of a common valuation standard, and lastly, the proposed reform will also improve investor's confidence and public trust in the government's valuation.

D. NATURAL DISASTERS

Impacts of Natural and Human-Induced Disasters

155. **Country Risk Profile.** The Philippines is an archipelago that is highly vulnerable to natural disasters and climate risks. Results of the World Risk Index 2020[34] show that the Philippines was among the 15 countries with the highest risk, and also among the nine countries out of the 15 that has the highest exposure. The country is among the five countries in the Association of Southeast Asian Nations (ASEAN) listed in the highest risk category. Sea-level rise, storms, and earthquakes are among the factors that contribute to the risk profile of these states.

156. Based on the Global Climate Risk Index 2021[35], the Philippines ranked fourth among the countries most affected by extreme weather events in the twenty-year period between 2000 and 2019, after Puerto Rico, Myanmar, and Haiti. The country is particularly regularly exposed to tropical cyclones due to its geographical location.

157. **Tropical Cyclones.** From 2018 to 2020, 64 tropical cyclones hit the Philippines, 23 of which, are categorized by the Department of Science and Technology (DOST) - Philippine Atmospheric, Geophysical, and Astronomical Services Administration (PAGASA) as either Typhoon or Super Typhoon[36].

Table 15. Philippines: Number of Tropical Cyclones Recorded in the Past Three Years

Year	Number of Recorded Tropical Cyclone	Of Which, Super Typhoon or Typhoon
2018	21	8 (8 - Typhoon; 0 - Super Typhoon)
2019	21	8 (8 - Typhoon; 0 - Super Typhoon)
2020	22	7 (6 - Typhoon; 1 - Super Typhoon)
Total	**64**	**23**

34 As reported in the World Risk Report 2020: https://reliefweb.int/sites/reliefweb.int/files/resources/WorldRiskReport-2020.pdf (Accessed March 2, 2021)

35 Developed by the German Watch; Report available at: https://reliefweb.int/sites/reliefweb.int/files/resources/Global%20Climate%20Risk%20Index%202021_1_0.pdf (Accessed March 2, 2021)

36 Data lifted from the DOST-PAG-ASA website: http://bagong.pagasa.dost.gov.ph/information/annual-cyclone-track (Accessed March 2, 2021)

158. In 2020, there were seven typhoons and one supertyphoon recorded. These are Ty Ambo (I.N. Vongfong); Ty Julian (I.N. Maysak); Ty Kristine (I.N. Haishen); Ty Pepito (I.N. Saudel); Ty Quinta (I.N. Molave); STy Rolly (I.N. Goni); and Ty Ulysses (I.N. Vamco).

Table 16. Philippines: Estimated Costs of Damages Recorded

Typhoon	Affected Population (Geographical Location)	Estimated Cost of Damages to Agriculture and Infrastructure
Pepito[37]	Regions II, III, CALABARZON, and CAR	₱105.82 million
Quinta[38]	Regions III, CALABARZON, MIMAROPA, V, VI, VII, and VIII	₱4.22 billion
Ulysses[39]	Regions I, II, III, CALABARZON, MIMAROPA, V, NCR, and CAR	₱20.23 billion

159. Super Typhoon Rolly hit the Philippines during the last quarter of 2020. According to the Situation Report of the National Disaster Risk Reduction and Management Council (NDRRMC)[40], a total of 522,600 families or 2,030,130 persons were affected in Regions II, III, CALABARZON, MIMAROPA, V, VIII, CAR, and NCR. It caused damage to infrastructure estimated at ₱12.87 billion; and ₱5 billion worth of damages to agriculture (crops, livestock, fisheries, and agricultural facilities), most of which were recorded in Region V.

Table 17.Philippines: Damages brought by Super Typhoon Rolly

Region	Estimated Cost of Damages to Infrastructure	Estimated Cost of Damages to Agriculture
CAR	8,000,000.00	6,111,656.00
NCR	5,000,000.00	1,156,000.00
Region I	7,500,000.00	56,410.00
Region II	37,000,000.00	-
Region III	114,500,000.00	67,745,484.00
CALABARZON	238,545,000.00	1,335,182,531.00
MIMAROPA	226,499,800.18	16,300,000.00
Region V	12,226,469,893.60	3,581,704,608.00
Region VIII	3,500,000.00	173,491.00
Total	**12,867,014,693.78**	**5,008,430,180.00**

37 NDRRMC Update as of October 26, 2020: https://ndrrmc.gov.ph/attachments/article/4129/SitRep_No_07_Preparedness_Measures_and_Effects_of_TY_Pepito_as_of_26Oct2020_8AM.pdf (Accessed on March 2, 2021)

38 NDRRMC Update as of November 9, 2020: https://ndrrmc.gov.ph/attachments/article/4130/SitRep_no_11_re_Typh00n_Quinta_as_of_09NOV2020.pdf (Accessed on March 2, 2021)

39 NDRRMC Update as of January 13, 2021: https://ndrrmc.gov.ph/attachments/article/4138/SitRep_no_29_re_TY_Ulysses_as_of_13JAN2021.pdf (Accessed on March 2, 2021)

40 NDRRMC Update as of November 11, 2020: https://ndrrmc.gov.ph/attachments/article/4135/SitRep_no_12_re_STY_ROLLY_as_of_11NOV2020.pdf (Accessed on March 2, 2021)

160. To hasten the rescue, relief, and rehabilitation efforts of the government and private sector, including any international humanitarian assistance, the President issued Proclamation No. 10151 on November 18, 2020 declaring a State of Calamity in the entire Luzon Island group. It recognized the widespread destruction to infrastructure and agriculture of three consecutive tropical cyclones (two typhoons - Quinta and Ulysses, and one supertyphoon - Rolly) over the island group.

161. Slow-onset events. Aside from rapid-onset events such as tropical cyclones, the threat of slow-onset events from climate change continues to pervade and is likely to affect economic activities and resource production, especially in agriculture.

162. Per Advisory from DOST-PAGASA[41], the weak El Niño which started to develop in the fourth quarter of 2018 has ended in August 2019. An estimated ₱7.97 billion worth of damages to agriculture were reported by the NDRRMC as of August 23, 2019 in Regions CAR, I, II, III, CALABARZON, MIMAROPA, V, VI, VIII, IX, X, XI, XII, and BARMM[42]. A total of 51 LGUs were also reported to have declared a State of Calamity due to the dry spell.

163. Meanwhile, La Niña is likely to continue through March-April-May 2021, with a rising probability of returning to neutral conditions on April-May-June according to the latest monitoring and outlook from DOST-PAGASA[43]. Rainfall forecast for February 2021 shows that most parts of the country will generally experience near to above normal rainfall conditions[44]. Any change to the conditions as well as developments for the remaining part of 2021 (outlook) will be based on new advisories from government sources and scientific authorities.

164. Geological Hazards. The Philippines' geographic location, being at the boundaries of two tectonic plates (the Philippine Sea Plate and the Eurasian Plate), makes it prone to volcanism and earthquake activity[45]. The country has 24 active volcanoes, with more than half located in Luzon[46]. As of March 4, 2021, the Philippine Institute of Volcanology and Seismology (PHIVOLCS)[47] maintained the alert level status of Mayon Volcano to Alert Level 1 (abnormal), Taal Volcano - Alert Level 1, Kanlaon Volcano - Alert Level 1, and raised the alert level status of Pinatubo Volcano from Alert Level 0 (normal) to Alert

41 Issued on August 9, 2019; Available at https://pubfiles.pagasa.dost.gov.ph/pagasaweb/files/climate/elninolanina/ENAdvisory_7.pdf (Accessed on March 2, 2021)

42 NDRRMC Update: https://ndrrmc.gov.ph/attachments/article/3676/SitRep_No_24_re_Preparedness_Measures_and_Effects_of_El_Ni%C3%B1o_as_of_23Aug2019_5PM.pdf (Accessed March 2, 2021)

43 http://bagong.pagasa.dost.gov.ph/climate/el-nino-la-nina/monitoring (Accessed March 2, 2021)

44 https://pubfiles.pagasa.dost.gov.ph/pagasaweb/files/climate/elninolanina/LN_Advisory5.pdf (Accessed March 2, 2021)

45 PHIVOLCS (https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/introduction-to-volcanoes)

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

47 As published through PHIVOLCS Volcano Bulletin Dashboard: https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletins3

Level 1. Meanwhile, as of October 26, 2020, Bulusan Volcano's alert level status was lowered from Alert Level 1 to Alert Level 0.

165. From January to December 2020, seismic events of various intensities were recorded. Below are the earthquakes monitored by the PHIVOLCS registering magnitudes 5.0 and above[48]:

Table 18. Philippines: Earthquakes in 2020

Magnitude	Dates	Location
M5.0	January 12, 2020	Cortes (Surigao Del Sur)
M5.0	January 6, 2020	Sarangani (Davao Occidental)
M5.4	January 6, 2020	Governor Generoso (Davao Oriental)
M5.5	February 28, 2020	Sarangani (Davao Occidental)
M5.4	February 20, 2020	Jose Abad Santos (Davao Occidental)
M6.1	February 6, 2020	Jose Abad Santos (Davao Occidental)
M6.1	March 26, 2020	Glan (Sarangani)
M5.4	March 18, 2020	Sarangani (Davao Occidental)
M5.0	March 13, 2020	San Antonio (Zambales)
M5.4	March 2, 2020	Leyte (Leyte)
M5.2	April 27, 2020	Jose Abad Santos (Davao Occidental)
M5.1	April 19, 2020	Sarangani (Davao Occidental)
M5.0	April 15, 2020	Sabtang (Batanes)
M5.1	April 15, 2020	Basey (Samar)
M5.1	April 12, 2020	Sarangani (Davao Occidental)
M5.1	April 11, 2020	Jose Abad Santos (Davao Occidental)
M6.0	April 11, 2020	Basco (Batanes)
M5.6	May 30, 2020	Sarangani (Davao Occidental)
M5.2	May 28, 2020	San Fernando (Capital) (La Union)
M5.1	May 23, 2020	San Luis (Aurora)
M5.0	May 20, 2020	Sarangani (Davao Occidental)
M5.4	May 10, 2020	Lubang (Occidental Mindoro)
M5.4	June 26, 2020	Calayan (Cagayan)
M5.0	June 22, 2020	Candon City (Ilocos Sur)
M5.1	June 5, 2020	Calintaan (Occidental Mindoro)
M6.6	June 4, 2020	Governor Generoso (Davao Oriental)
M5.7	July 31, 2020	Hinatuan (Surigao Del Sur)
M5.8	July 28, 2020	Bayabas (Surigao Del Sur)
M5.6	July 26, 2020	Manay (Davao Oriental)
M5.1	August 19,2020	Cataingan (Masbate)
M6.6	August 18, 2020	Cataingan (Masbate)
M5.1	August 16, 2020	Kalamansig (Sultan Kudarat)
M5.0	August 16, 2020	Sabtang (Batanes)

48 Data extracted from PHIVOLCS Earthquake Information Bulletin available at https://www.phivolcs.dost.gov.ph/index.php/earthquake/earthquake-information3

M5.4	August 13, 2020	Sabtang (Batanes)
M6.4	August 2, 2020	Cotabato City (Maguindanao)
M5.2	September 24, 2020	Bayabas (Surigao Del Sur)
M5.2	September 21, 2020	Bayabas (Surigao Del Sur)
M5.7	September 21, 2020	Bayabas (Surigao Del Sur)
M5.0	September 20, 2020	Don Marcelino (Davao Occidental)
M5.9	September 9, 2020	Sarangani (Davao Occidental)
M5.5	September 9, 2020	Sarangani (Davao Occidental)
M6.4	September 6, 2020	Don Marcelino (Davao Occidental)
M5.0	October 29, 2020	Mabini (Batangas)
M5.4	October 17, 2020	Looc (Occidental Mindoro)
M5.6	October 5, 2020	Looc (Occidental Mindoro)
M5.3	October 1, 2020	Bayabas (Surigao Del Sur)
M6.0	November 16, 2020	San Agustin (Surigao Del Sur)
M5.0	November 15, 2020	Pio V. Corpuz (Masbate)
M5.3	November 12, 2020	Burgos (Surigao Del Norte)
M5.1	November 5, 2020	Burgos (Surigao Del Norte)
M5.5	December 30, 2020	Sarangani (Davao Occidental)
M5.2	December 25, 2020	San Francisco (Quezon)
M5.2	December 25, 2020	Sarangani (Davao Occidental)
M6.3	December 25, 2020	Calatagan (Batangas)
M6.2	December 16, 2020	Sarangani (Davao Occidental)
M5.4	December 7, 2020	Prieto Diaz (Sorsogon)

166. Health-related Emergencies - COVID-19 Pandemic. Year 2020 saw the spread of COVID-19, a disease caused by a newly discovered coronavirus called SARS-CoV-2. On January 30, 2020, the Director-General of the World Health Organization (WHO) declared the novel coronavirus outbreak a public health emergency of international concern (PHEIC), WHO's highest level of alarm[49], and on March 11, 2020 characterized the COVID-19 as a pandemic. On January 27, 2021, global COVID-19 cases surpassed 100 million. As of March 4, 2021, there are 114,853,685 confirmed cases of COVID-19, including 2,554,694 deaths, reported to WHO, with the United States of America having the greatest number of confirmed cases at 28,403,416[50]. In the Philippines, the Department of Health[51] reports that as of March 4, 2021, total number of confirmed cases is at 584,667, with 37,226 active cases, 535,037 recoveries, and 12,404 deaths. Both global cases dashboard by the WHO and the Philippines COVID-19 bulletin of the DOH is being regularly updated.

167. The COVID-19 pandemic has caused economic and social disruption. In order to contain the spread of this infectious disease, countries put in place several public health and safety measures. A few countries have largely arrested the spread of the disease, but

49 WHO's COVID-19 Response Timeline available at https://www.who.int/emergencies/diseases/novel-coronavirus-2019/interactive-timeline/

50 WHO COVID-19 Dashboard is updated regularly and may be accessed through https://covid19.who.int/

51 DOH COVID-19 Bulletin #335 (doh.gov.ph/covid19casebulletin355)

many are still experiencing additional waves of infection. Other variants of the disease are also emerging, raising heightened concerns.

168. Dengue[52]**.** In August 2020, a year after a dengue epidemic was announced, the DOH reports that cases have dropped from 430,282 to 59,675 in 2020, with deaths related to dengue also significantly decreased from 1,612 in 2019 to 231 in 2020. The DOH employs a multi-pronged approach at aiming to reduce cases of water-borne infectious diseases, influenza, and leptospirosis including dengue; and works in close cooperation with Local Government Units to implement mitigation and response measures.

169. Measles. It is regarded as one of the most contagious diseases in the world, in the Philippines, an estimated 2.4 million children under the age of five are susceptible to measles[53]. Pockets of measles outbreak were reported in 2020, with about 3,500 cases reported in the Philippines as of August 2020 out of which 36 were reported deaths[54].

170. A nationwide Measles Rubella-Oral Polio Vaccine Supplemental Immunization campaign was rolled out by the DOH with support from the WHO and UNICEF in the last quarter of 2020 and extended until March of this year. The DOH recognizes the need to address other health concerns outside of the COVID-19 pandemic and thus also encourages parents and guardians to ensure vaccination of children against diseases that are vaccine-preventable.[55]

171. Disaster Arising from Armed Conflicts. The Task Force Bangon Marawi (TFBM) continues to coordinate and oversee the implementation of programs, activities, and projects, and (PAPs) to rehabilitate the areas affected by the Marawi Siege in 2017. The Program's investment requirements are estimated at ₱60.506 Billion to be implemented from 2018 to 2022.[56] As reported during the January 13, 2021 TFBM meeting, a total of ₱22 billion has been allocated for the Marawi rehabilitation since 2017, including the ₱5 billion allocation for fiscal year 2021 under the Marawi Recovery, Rehabilitation and Reconstruction Program (MRRRP) of the National Disaster Risk Reduction and Management Fund (NDRRMF). As of said date, the available balance from the MRRRP fund is at ₱5.008 billion.

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52 DOH Press Release dated September 4, 2020 retrieved at https://doh.gov.ph/press-release/DOH%E2%80%99S-W.I.L.D.-INITIATIVE-LOWERS-DENGUE-DEATHS-BY-78-percent

53 DOH Press Release dated October 7, 202 retrieved at https://doh.gov.ph/press-release/DOH-LGUs-TO-CONDUCT-NATIONWIDE-MEASLES-RUBELLA-AND-POLIO-SUPPLEMENTAL-IMMUNIZATION-ACTIVITY-STARTING-OCTOBER-26

54 DOH-WHO-UNICEF Joint Press Release dated September 17, 2020 retrieved at https://www.who.int/philippines/news/detail/17-09-2020-doh-who-unicef-to-conduct-nationwide-measles-campaign-starting-october-26#:~:text=In%202020%2C%20pockets%20of%20measles,children%20under%20five%20years%20old.&text=The%20measles%20vaccine%20is%20safe%20and,in%20use%20for%2050%20years.

55 DOH Press Release dated March 3, 2021 retrieved at https://doh.gov.ph/doh-press-release/DOH-VACCINATION-ACTIVITY-AGAINST-MEASLES-RUBELLA-AND-POLIO-EXTENDED-UNTIL-MARCH%207

56 Report from the Task Force Bangon Marawi February 2020

172. As of January 2021, out of the 769 PAPs included in the Bangon Marawi Comprehensive Rehabilitation and Recovery (BMCRRP), 138 have already been completed, 159 are ongoing, 442 are still in pipeline, and 30 have been dropped. The status of these PAPs are being monitored through the TFBM Management Information System (MIS) developed with support from the World Bank and has been turned over for management by the TFBM last year.

173. Cost of damage from disasters in 2020. Table 16 shows a summary of the cost of damage from major disaster events in 2020 based on the results of the Post-Disaster Needs Assessment (PDNA) and Situational Reports (SitRep) prepared by the National Disaster Risk Reduction and Management Council (NDRRMC). A total of **₱74.751 billion** worth of damages were recorded for the said period.

Table 19. Philippines: Total Cost of Damages from Disasters in 2020

Disaster/Event (Dates of Occurrence)	Affected Regions	Total Damages (₱ Billion)	Source of Data
TY Ambo (10 May 2020)	I, II, III, CALABARZON, MIMAROPA, V, VIII, CAR	1.57	NDRRMC SitRep 15 *(dated 27 May 2020)*
TY Quinta (23 Oct. 2020) TY Rolly (2 Nov. 2020) TY Ulysses (8 Nov. 2020)	II, CALABARZON, MIMAROPA, V	69.02	PDNA report *(as of 19 February 2021)*
TY Pepito (19 Oct. 2020)	II, III, CALABRZON, VI, XI, CAR	0.11	NDRRMC SitRep 7 *(dated 26 Oct. 2020)*
TY Vicky (18 Dec. 2020)	V, VII, XI, CARAGA,	0.21	NDRRMC SitRep 7 *(dated 26 Dec. 2020)*
Magnitude 6.6 Earthquake in Cataingan, Masbate	V	0.27	NDRRMC SitRep 10 *(dated 10 Sept. 2020)*
Taal volcano eruption	CALABARZON	3.57	PDNA report
TOTAL Damages		**74.75**	

174. Among the typhoons in 2020, Typhoons Quinta, Rolly, and Ulysses caused the largest damages amounting to ₱69.02 billion, with Region V bearing the major brunt. Said typhoons also led to economic losses estimated at ₱35.74 billion in total.

175. **Estimates by the Department of Agriculture as of November 27, 2020 peg the total damages to the agriculture sector inflicted by the typhoons Ofel, Nika, Pepito, Quinta, Rolly, and Ulysses at ₱15.3 billion.**[57] According to the NEDA, the country's experience with the recent typhoons underscores the need for "long-term engineering interventions, reforestation, and coordinated flood management systems across different LGUs and the need to intensify the distribution of climate-resilient technologies and other production support assistance to mitigate production loss in the agriculture sector."[58]

Table 20. Philippines: Damage, Losses, and Needs from Typhoons Quinta, Rolly, and Ulysses
(*In billion pesos*)

REGIONS	DAMAGES	LOSSES	NEEDS
II	2.13	4.19	14.61
IV-A	3.98	4.21	8.94
MIMAROPA	4.19	5.66	9.40
V	58.72	21.68	107.02
TOTAL	**69.02**	**35.74**	**139.98**

Source: PDNA (as of 19 February 2021)

176. The NDRRMF in the National Budget is intended to support pre-disaster and post-disaster activities resulting from natural or human-induced calamities and can be released upon approval of the President with the recommendation of the NDRRM Council.[59] The NDRRMF and the QRF have total appropriations cover of ₱25.135 billion and ₱6.370 billion, respectively, and are indicated on Tables 18 and 19 below.

Table 21. Philippines: Breakdown of the National Disaster Risk Reduction and Management Fund
(*In million pesos*)

Particulars	FY 2020 Continuing Appropriations	FY 2021 Current Appropriations
NDRRM Program	439.189	13,000.000
Marawi Recovery Rehabilitation and Reconstruction Program	8.188	5,000.000
Comprehensive Aid to Repair Earthquake Damage for Region XI and Region XII	4,688.064	-
Insurance Premium	-	2,000.000
Total	**5,135.441**	**20,000.000**

57 See National Economic and Development Authority (NEDA), RECENT TYPHOONS AND TRANSPORT RESTRICTIONS POSE UPWARD INFLATION PRESSURES – NEDA, available at https://www.neda.gov.ph/recent-typhoons-and-transport-restrictions-pose-upward-inflation-pressures-neda/ (last visited Mar. 25, 2021).

58 Id.

59 See S.P. Nos. 1 and 2, National Disaster Risk Reduction and Management Fund, Rep. Act. No. 11518 (2021). General Appropriations Act, FY 2021, available at https://dbm.gov.ph/wp-content/uploads/GAA/GAA2021/VolumeI/NDRRMF.pdf (last visited Mar. 26, 2021).

177. The rehabilitation and recovery of areas affected, which is being led by Task Force Build Back Better (TFBBB), has six key results areas (KRA), focusing on three priority areas: Marikina River Basin, Cagayan River Basin, and Bicol River Basin.

- KRA 1: Better and resilient infrastructure
- KRA 2: Stronger shelter and resilient settlement
- KRA 3: Improved systems and essential services
- KRA 4: Restored sustainable livelihood
- KRA 5: Strengthened governance thru broad-based citizen input
- KRA 6: Intensified watershed management

The biggest chunk of the investment requirement for the rehabilitation and recovery efforts is in the infrastructure sector which will cover not only the reconstruction of damaged facilities but also mitigation projects to prevent future flooding in the areas affected. These include the construction of dams/dikes/sediment control structures and other related flood control projects such as the river walls, flood gates, channeling improvement, and cut-off channels. Resettlement areas will also be developed for informal settlers living along rivers and in danger zones. The total investment requirement for the rehabilitation and recovery efforts is still being finalized.

178. Updates on the rehabilitation and recovery of areas affected by the Taal Volcano Eruption. The total investment requirement for the rehabilitation and recovery of areas affected by the Taal Volcano eruption is ₱41.902 billion with infrastructure, housing/resettlement, and agriculture/fisheries sectors having the largest share at 36 percent, 28 percent, and 23 percent, respectively.

179. Based on the Regional Project Monitoring and Evaluation System (RPMES) report of the NEDA Regional Office-Calabarzon as of the 1st quarter of 2021, 231 out of the 1,347 proposed projects, worth PhP 6.7 Billion, are either completed or ongoing. Meanwhile, there are 41 projects included in the FY 2021 GAA amounting to Php 3.68 billion, while Php 424 million worth of programs and projects is proposed under the FY 2022 budget proposals of agencies in the region.

180. As of December 2020, 235 out of the 1,347 proposed projects are either completed or ongoing. This represents a total of ₱1.06 billion. For 2021, there are 41 projects included in the GAA amounting to ₱3.68 billion.

181. For FY 2021, the approved NDRRMF[60] amounts to **₱20 billion**[61], broken down as follows:

60 The NDRRMF is intended "for aid, relief, and rehabilitation services to communities/areas affected by human-induced and natural calamities, and repair and reconstruction of permanent structures, including other capital expenditures for disaster operation, and rehabilitation activities."

61 FY 2021 General Appropriations Act (GAA) RA 11518, page 792

- **₱15 billion under the NDRRM Program**, which may be used for disaster mitigation, prevention, and preparedness activities such as training of personnel, procurement of equipment, and capital expenditures. It can also be utilized for relief, reconstruction and rehabilitation, and other works or services related to the occurrence of natural or human-induced calamities, epidemics as declared by the DOH, crises resulting from armed conflicts, and other catastrophes in the current year or the preceding two (2) years. This fund may also be used to replenish the QRF when the balance of the implementing agency has reached 50 percent. Furthermore, it may be utilized for the payment of insurance premium of government assets against calamities and catastrophes as provided under RA 656[62], provided that the amount shall not exceed ₱2 billion.

  The use of the NDRRMF is subject to the approval of the President, upon the recommendation of the NDRRMC for local disasters or the appropriate agency for international crises. Furthermore, reconstruction or rehabilitation projects shall be implemented by the appropriate department, agency, or LGUs with the capability to implement the projects concerned and subject to the guidelines provided under Section 89[63] of the General Provisions of the GAA.

- **₱5 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 occurrence of the armed conflict. Infrastructure projects under the program shall be implemented by the appropriate department or agency. The funds shall be released directly to the implementing agencies per approval of the President, who may take into consideration the recommendation of the NDRRMC.

182. The timely release and effective utilization of the NDRRMF and agency QRFs are crucial to mitigate the impact of these calamities to the economy and the public at large.

Of the total NDRRMF amount, some ₱17.389 billion is being processed for release as of July 31, 2021, the bulk of which are intended to be used for measures under the

62 An Act to Create and Establish a "Property Insurance Fund" and to Provide for its Administration and for other Purposes, or the "Property Insurance Law"

63 "…the National Government Agencies, such as DPWH, DA, NIA, DOH, DSWD, DepEd, DENR, DILG, and DOTr, may designate LGUs as implementing agencies for public works and infrastructure projects and other programs, services and facilities, including the construction of local roads and facilities" appropriated in the GAA subject to certain conditions such as the: (a) LGU capability to implement by administration or contract and in accordance to standards; (b) LGU commitment to fund the cost of maintenance and repairs of nationally funded public works and infrastructure projects; and (c) amounts appropriated to LGUs shall be released during the fiscal year to be deposited in a trust fund and shall be made available for disbursement until December 31, 2022

NDRMM Program, the Marawi Recovery, Rehabilitation and Reconstruction Program, and the Comprehensive Aid to Repair Earthquake Damage (CARED).[64]

183. In addition to the ₱20 billion NDRRMF, **₱6.37 billion QRF[65]** was also provided in the budgets of the following agencies:

Table 22. Philippines: Agencies with QRF Appropriation

Agency	QRF Appropriation (in Million Pesos)
DA OSEC	1,000.00
DepEd OSEC	2,000.00
DOH OSEC	520.00
DILG-BFP	50.00
DILG-PNP	50.00
DND-OCD	500.00
DPWH OSEC	1,000.00
DSWD OSEC	1,250.00
Total	**₱6,370.00**

Outlook

184. The Philippines is a disaster-prone archipelago. The ardent motivation of the Philippine Government to pursue climate action and disaster risk reduction initiatives springs forth from the country's high vulnerability to natural disasters. On a long-term average basis, the Philippines is expected to incur **US$3.6 billion per year in losses to public and private assets due to typhoons and earthquakes.** Risk assessment tools show that much worse storms are possible without proper adaptation and mitigation measures in place.

Policies and Institutional Measures and Initiatives

185. The Government continues to develop and implement new policies, plans, and programs to prepare for and mitigate the impact of both natural and human-induced disasters and emergencies. Activities should be undertaken in a cohesive and coordinated matter, guided by the whole-of-government and whole-of-society approaches.

186. 2021 Allocation for the National Disaster Management Fund[66]. For fiscal year 2021, Congress approved an allocation of ₱20 billion under the NDRRMF, which includes a ₱5 billion allocation for the Marawi Recovery, Rehabilitation and Reconstruction Program.

64 See DBM, Status of National Disaster Risk Reduction and Management Fund, as of July 31, 2021, available at https://dbm.gov.ph/index.php/programs-projects/status-of-national-disaster-risk-reduction-and-management-fund#2021 (last visited Aug. 31, 2021).

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

66 General Appropriations Act 2021 is available at the DBM website

The NDRRMF is on top of the regular budgets allocated to government line agencies with mandates, projects, and activities contributing to climate actions and disaster resilience such as the Department of Public Works and Highways (DPWH), Department of Agriculture (DA), National Irrigation Authority (NIA), Department of Transportation (DOTr), Department of Energy (DOE), and Department of Labor and Employment (DOLE).

187. The following are the Government's ongoing disaster risk resilience initiatives in pursuit of the Philippines' **National Disaster Risk Reduction and Management Plan (NDRRMP)** and **Disaster Risk Financing and Insurance (DRFI) Strategy**:

a. Quantifying and clarifying the contingent liabilities faced by the government through the **Philippines Catastrophe Risk Model** developed in 2014 and through continuous risk analytics and risk transfer design instruments which aims to find the appropriate financing mechanism for disaster events.

b. Acquiring contingent credit lines to protect against moderate disasters through financing facilities such as **Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option** from the World Bank. This financing instrument provides the Government with immediate liquidity in the face of disaster as it is easily disbursed upon the accomplishment of a pre-agreed trigger such as a Presidential Declaration of a State of Calamity.

   Similar instruments are also being developed and accessed from other development partners such as the Asian Development Bank (ADB) and the Japan International Cooperation Agency (JICA).

   The **Disaster Resilience Improvement Program (DRIP)** is a **US$500 million** loan from ADB executed by the DOF. The DRIP is part of the National Government's contingent financing that can be disbursed quickly following a health-related emergency and other nature-induced disasters. Funds under the DRIP will become available for disbursement once an agreed drawdown trigger—typically a declaration of a state of emergency or calamity—is met. This financing will therefore allow immediate cash provision for the Government's post-emergency/ calamity response. The DRIP entered into effectivity on October 26, 2020, with an implementation period of 3 years.

   Meanwhile, the **Post Disaster Stand-By Loan Phase 2 (PDSL2)** is a program from the Japan International Cooperation Agency (JICA) amounting to **JPY 50 billion (approximately ₱23.24 billion or US$468.4 million[67])**. The objective of the Program is to support quick recovery after natural and health-related disasters by promoting policy actions on DRRM and strengthening disaster

67 Exchange rates used (2020 average): JPY1 = USD0.009368; JPY1 = PHP0.4647

preparedness by providing quick-disbursing budget support, thereby contributing to build a resilient society. Loan Agreement for the PDSL2 was signed between JICA and the DOF on September 15, 2020.

c. Using risk transfer to access international private reinsurance and capital markets.

d. Providing a comprehensive inventory of government assets through the **National Asset Registry System (NARS)** launched in November 2017. The information gathered aims to create a consolidated report that will encourage good governance, accountability, greater transparency, and prudent asset management.

188. The impact of COVID-19 manifests in various fronts - society, the economy, health, and security. Countries had to grapple with this crisis whilst simultaneously formulating appropriate, responsive and efficient policy directions to counter the burgeoning pandemic. COVID-19 has prompted countries to realign resources and re-think, reconfigure, and even design new policies.

189. To arrest the increase in the number of COVID-19 infections and save more lives, our government continuously strives to carry out the following initiatives:

a. **Increased testing capacity** - accrediting more laboratories, acquiring testing kits, testing of more people, among others.

b. **Strengthening the healthcare system** - capacitating hospitals, acquiring additional medical and personal protective equipment, setting up additional quarantine facilities, among others.

190. The Philippine government, following the passage of the **Bayanihan to Heal as One Act**, formulated a 4-Pillar Economic Strategy managing the needed resources amounting to **US$34.32 Billion**. *Bayanihan* is a Filipino word denoting civic unity and cooperation; with this as a central theme for our recovery, the allocated resources were intended to help the vulnerable sectors and frontline healthcare workers, and to prop-up the economy. The government came up with the 4-Pillar Economic Strategy[68] marshalling and managing all the needed resources to address the effects of the pandemic.

Pillar 1 Emergency Support of Vulnerable Groups (₱506.1Billion). Covers emergency subsidy program for 18 million low-income families; wage subsidy program for employees of MSMEs and cash assistance program to displaced workers; loan for MSMEs; loan for farmers and fishers; among others.

68 Estimates as of December 31, 2020, for regular updating

Pillar 2 Resources to Fight COVID-19 (₱58.9 billion). Expanded medical resources to fight COVID-19 and ensure the safety of frontliners (health insurance coverage for all COVID-19 patients; special risk allowance, hazard pay, and personal protective equipment (PPE) for frontline health workers; increased testing capacity; etc.).

Pillar 3 Monetary Actions to keep the economy afloat and other financing support for emergency response and recovery initiatives (₱1.4 trillion liquidity infusion into the economy and ₱1.4 trillion financing support). First component of this pillar refers to monetary actions to keep the economy afloat which includes expansion in liquidity in the next 12 months after a cumulative reduction of 200-basis points in the policy rate by the *Bangko Sentral ng Pilipinas (BSP)*, and other liquidity-enhancing measures from the BSP. The second component include official development assistance (ODA) loans from multilateral and bilateral sources, remittances from GOCCs to fund COVID-19 response measures, and global bonds issued by the Bureau of the Treasury.

Pillar 4 An Economic Recovery program to create jobs and sustain growth (₱791.6 Billion). The Bayanihan II Act and CREATE program to help businesses get back on their feet to sustain and create jobs once the quarantine period ends.

191. The Government passed the **Bayanihan to Recover as One Act or Bayanihan II**, a **US$3.23 Billion** stimulus package to support MSMEs and the transport, tourism, and agriculture sectors. The package also aids displaced workers, as well as learners, to adjust to the new method of learning. Moreover, the package includes allocations for health-related responses.

192. The Government further passed the **COVID-19 Vaccination Program Act of 2021** which authorizes the National Government to procure COVID-19 vaccines including ancillary supplies and services, jointly or in cooperation with Local Government Units and Private Entities. Under the said law, the procurement, importation, donation, storage, transport, deployment, and administration of COVID-19 vaccines shall be exempt from customs duties, value-added tax, excise tax, donor’s tax, and other fees. It further created the National Vaccine Indemnity Fund which shall be utilized to indemnify any person vaccinated who dies or suffers from serious adverse effects caused by the vaccine.

193. To support the increased financing requirements, as of **March 10, 2021, the DOF has raised a total of US$13.35 billion in budgetary support financing from the ADB, World Bank, AIIB, AFD, JICA, KEXIM-EDCF and US$-denominated global bonds, of which US$11.01 billion has been disbursed to the government in 2020, and an additional US$693.68 has been disbursed thus far in 2021**. In addition, grant and loan financing amounting to a total of US$941.74 million have been contracted in support of various projects to be implemented by agencies involved in COVID-19 response.

194. **COVID-19 Vaccination.** The scientific world has been in the race to develop a vaccine to prevent the further spread of COVID-19 and ultimately save lives. Economies have been looking forward to this public health breakthrough in order to rise from the devastating effects of the pandemic. As reported by the WHO[69], as of February 18, 2021, at least seven different vaccines have already been rolled out in countries, while more than 200 additional vaccine candidates are in development.

195. The COVAX Facility brings together governments, global health organizations, manufacturers, scientists, private sector, civil society and philanthropy which aims to provide "innovative and equitable access to COVID-19 diagnostics, treatments, and vaccines"[70]. It is coordinated by Gavi, the Vaccine Alliance, the Coalition for Epidemic Preparedness Innovations (CEPI), and the WHO. In a press release of the WHO in February[71], over 37,000 vaccine doses of the Pfizer are expected to reach the most at-risk and vulnerable people in the Palestinian territory, and almost 94,000 in Tunisia by mid-February, through the COVAX Facility. In addition, 46 to 56 million doses of AstraZeneca/Oxford vaccines will be available in the first half of 2021 for people in 20 countries in the Eastern Mediterranean region (Afghanistan, Bahrain, Djibouti, Egypt, Islamic Republic of Iran, Iraq, Jordan, Lebanon, Oman, Libya, Morocco, Palestine, Pakistan, Qatar, Sudan, Saudi Arabia, Somalia, Syria, Tunisia, and Yemen). Further, per the WHO, a total of "92 low- and middle-income economies will be able to access COVID-19 vaccines through the COVAX Facility Advance Market Commitment (AMC)[72].

196. Per the data available in *Our World in Data* dashboard[73] from December 13, 2020 to March 6, 2021, a total of 300.19 million cumulative COVID-19 vaccination doses were administered around the world, with the United States with the most doses at 87.91 million followed by the United Kingdom (22.89 million), and Israel (8.65 million). In Asia, a total of 108.6 million doses were already administered, with vaccine doses administered in China reaching 52.52 million. Record for the Philippines is at 2,793 within the period covered.

197. The Philippines started rolling out available vaccines on March 1, 2021 to priority individuals, mostly medical frontliners alongside several government officials. The country received its first batch of COVID-19 vaccines on February 28, 2021 — 600,000 doses of Sinovac vaccines donated by the Chinese government and military. A total of 25 million doses of the same vaccine from China are also expected to arrive within the year, as

69https://www.who.int/emergencies/diseases/novel-coronavirus-2019/covid-19-vaccines

70 Retrieved from the Gavi website (gavi.org)

71 Retrieved from http://www.emro.who.int/media/news/glimmer-of-hope-covid-19-vaccines-roll-out-in-countries-of-the-eastern-mediterranean-region.html

72 https://www.who.int/news-room/feature-stories/detail/country-readiness-for-covid-19-vaccines

73 Our World in Data and the SDG-Tracker are collaborative efforts between researchers at the University of Oxford, who are the scientific editors of the website content; and the non-profit organization Global Change Data Lab, who publishes and maintains the website and the data tools that make our work possible. At the University of Oxford we are based at the Oxford Martin Programme on Global Development. Data on COVID-19 vaccinations is available at https://ourworldindata.org/covid-vaccinations

earlier reached through an agreement between the two countries[74]. On March 4, 2021, more than 480,000 doses of AstraZeneca vaccines also arrived in the country through the COVAX Facility. Several Local Government Units (LGUs) and private firms have also signed deals with the Swedish pharmaceutical firm AstraZeneca for the procurement of COVID-19 vaccines including Metro Manila cities Manila, Makati, Muntinlupa, Navotas, Parañaque, Pasig, Pasay, Quezon, San Juan, Taguig, and Valenzuela; as well as LGUs outside the capital, namely Antipolo City, Baguio City, Dagupan City, the province of Ilocos Norte, Vigan City, Bacolod City, Iloilo City, Ormoc City, Davao City, Oroquieta City, and Zamboanga City.[75]

198. For FY2021, budget allocated or vaccines and ancillary services are tucked into appropriations for (i) the Department of Health amounting to ₱2.5 billion; (ii) Unprogrammed Funds (primarily for multilateral financing to be secured from the ADB, World Bank, and AIIB) amounting to ₱70 billion; and (iii) continuing appropriations from the Bayanihan II Law in the amount of ₱10 billion. This brings the total budget allocation to ₱82.5 billion.

199. International Climate Cooperation. The Government likewise contributes to international cooperation on green pandemic recovery. Since March 2020, the Government has closely coordinated with international development partners to ensure that the Philippines will not only economically recover, but build back better:

a. **The Coalition of Finance Ministers for Climate Action (The Coalition)** - The Coalition has integrated COVID-19 recovery into the activities of the Helsinki Principles. Workshops were held and studies published to provide countries with guidance and best practices on green recovery. Moreover, the Department of Finance (DOF) together with the Ministry of Finance of Finland as co-champions of the Coalition Helsinki Principle 4, will be organizing assessments and workshops to COVID-19 recovery into green budgeting;

b. **Development of the Sustainable Finance Inter-Agency Council** - With the help of the United Kingdom (UK) Government and co-chaired by the DOF as the Chairman designate of the Climate Change Commission (CCC) and the Bangko Sentral ng Pilipinas (BSP), the said council focuses on supporting and accelerating the development of a green sustainable economy. Discussions have emerged to incorporate COVID-19 recovery into the Council's activities;

c. **Nationally Determined Contributions (NDC) Partnership** - The NDC Partnership has been coordinating with member countries to integrate COVID-19 response into NDC development and implementation, which includes studies and

74 As reported in a CNN Philippines Articles published on March 4, 2021 retrieved at https://www.cnnphilippines.com/news/2021/3/4/one-million-vaccines-China-Sinovac-March.html

75 https://newsinfo.inquirer.net/1382654/list-lgus-private-firms-ink-deals-for-supply-of-astrazeneca-vaccine

stimulus packages. The NDC Partnership, as an Institutional Partner, has also contributed to the Coalition's green recovery activities;

d. **UK Cross Government Prosperity Fund** - The UK Government, through the British Embassy Manila will work with the DOF, BSP, Securities and Exchange Commission (SEC), and the Insurance Commission (IC) on the proposed interventions under the Prosperity Fund Financial Sector and Intellectual Property Programme (FSIP) and the Prosperity Fund ASEAN Low Carbon Energy Programme (ALCEP). Said programmes cover capital market development, financial technology, accounting standards and green finance, consistent with the areas identified under the Partnership Statement and Joint Action Plan on Economic Trade and Investment between the Philippines and the UK signed on March 21, 2019.

e. **International Climate Initiative (IKI) of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU) -** The BMU-IKI has been providing support to the Philippines for technical cooperation projects since 2008, focusing on the areas of climate change mitigation, adaptation to the impacts of climate change and the protection of biological biodiversity.

200. Moreover, the Philippines became a member of the **Southeast Asia Disaster Risk Insurance Facility (SEADRIF)** on May 31, 2019. The SEADRIF is designed to be a platform to offer climate and disaster risk financing solutions, responding to the needs of the Association of Southeast Asian Nations (ASEAN) member countries. SEADRIF has been highlighted by ASEAN+3 Finance Ministers and Central Bank Governors as a key initiative to strengthen regional financial resilience. In December 2019, the meeting of the Council of Members agreed to establish the Technical Working Group for a Public Asset Financial Protection Program, which the Philippines was a co-chair thereof.

201. Currently, the Philippines participates, together with Japan and the Monetary Authority of Singapore, in developing the country specific options (i.e., SEADRIF Facility) for the provision of a joint financial solution by SEADRIF to support members in financially protecting public assets. The World Bank is in the process of preparing a detailed feasibility report for the Technical Working Group for the Public Asset Financial Protection Program, co-chaired by Japan and the Philippines, which sets out the details of a proposed product, including financial, operational, and governance requirements, including the vision for any SEADRIF financial product to be developed.

202. The Philippines is also co-chairing with Japan the **Asia Pacific Economic Cooperation (APEC) Working Group on Disaster Risk Financing Solutions** which aims to advance policies and implement solutions to strengthen the financial resilience of APEC economies to natural disasters. The following studies/activities were generated by the DRFI WG in 2020: (i) ADB-OECD Report on Leveraging Technology and Innovation for Disaster Risk Management and Financing; and (ii) Virtual Workshop on Catastrophe Bonds on

September 23-24, 2020, jointly organized with ABAC, the Asia-Pacific Financial Forum (APFF) and the World Bank under the APEC Regional DRFI Solutions Working Group.

203. **Climate Change Initiatives in the Philippines.** The Government has crafted national adaptation and mitigation policies in place and are continuously being implemented to respond to risks brought about by climate change and disasters:

a. **Climate Change Act of 2009, as amended (Republic Act (RA) No. 9729, as amended by RA 10174)** - It intends to mainstream climate change into government policy formulations, establish the Framework Strategy and Program on Climate Change, and create the Climate Change Commission (CCC) and the establishment of the People's Survival Fund as the national climate adaptation fund;

b. **Framework Strategy on Climate Change (FSCC) 2010-2022**- It aspires to chart a cleaner development path for the Philippines, highlighting the mutually beneficial relationship between climate change mitigation and adaptation;

c. **National Climate Change Action Plan (NCCAP) 2011-2028** - It uses a thematic approach with four desired outcomes that will focus on conservation, and protection of the environment and natural resources;

d. **Republic Act No. 10121** - Also known as the Philippine Disaster Risk Reduction and Management Act of 2010, transforms the way the Philippines deals with disasters by addressing the underlying causes of risk;

e. **Executive Order No. 174 s. 2014** institutionalizes the Philippine Greenhouse Gas Inventory Management and Reporting System to support better planning for climate change adaptation and mitigation actions;

f. **National Solid Waste Management Commission (NSWMC) Resolution No. 1363 Series of 2020** - It is a Resolution directing the DENR to prepare and implement the banning of the use of unnecessary single-use plastics by NGAs, LGUs, and all other Government-controlled offices; and

g. **Cabinet Cluster on Climate Change Adaptation and Mitigation-Disaster Risk Reduction or CCAM DRR (EO 24, S.2017)** - It aims to facilitate coordination NGAs, the LGUs, and other stakeholders on Climate Change Adaptation and Mitigation Measures.

204. **The Philippines is facing the simultaneous economic shocks of the pandemic, the monsoon season, and climate change effects.** In the past year, the Philippines has marshalled available resources towards the response to the health and socioeconomic

aspects of the pandemic. This entailed reallocation of funds, including resources supposedly for response to other calamities, such as typhoons and earthquakes.

205. Nonetheless, the country still has much work left despite all these efforts and that the poorest of the poor remain most vulnerable to the effects of climate change and natural disasters. Strengthening the resilience of individuals belonging to this level remains crucial as much as everyone's cooperation is needed to really ensure that these responsive policies address the effects of the "new normal" that we are now experiencing.