FISCAL RISKS STATEMENT

2023

Development Budget Coordination Committee

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I. EXECUTIVE SUMMARY

A. **The Philippine economy recorded a 5.7 percent expansion in 2021, as recovery gained traction which balanced the need to address the Coronavirus Disease 2019 (COVID-19) pandemic with restoring people's jobs and incomes.** Robust growth in investments and consumption on the back of stronger business and consumer confidence and the gradual reopening of the economy following large gains in the number of vaccinated individuals, together with stimulus measures, allowed for a strong rebound. Going forward, the economy is expected to grow further as the government continues its infrastructure programs and implements legislative measures to attract more foreign investments and enhance the country's competitiveness.

B. **Macroeconomic fundamentals remained supportive of growth targets amidst inflation pressures and expected domestic and global policy shifts.** Headline inflation using the 2012-based series settled above the official target[1] amidst elevated pressures from global supply chain disruptions and rebounding oil prices. Treasury bill rates and borrowing costs remained low even with the expected unwinding of monetary policy accommodations and greater inflationary pressures. Firm macro-fundamentals, the easing of quarantine protocols, and a favorable external position provided support for the peso amidst greater global uncertainties.

C. **Revenue collections remain buoyant while the actual and projected fiscal deficit remain elevated in the near term due to post-pandemic recovery spending.** Boosted by rigorous tax administration and reforms, the improvement in revenue effort will contribute to the moderation of the fiscal deficit over the medium term. Downside risks to the country's fiscal position include (1) the inability to reform the current pension scheme for military and uniformed personnel (MUP); (2) policy continuity in light of the 2022 national and local elections; and (3) fiscal and economic impact of natural disasters.

D. **The debt-to-GDP ratio is expected to stabilize in the medium term before improving as broader economic recovery sets in and the fiscal deficit returns to pre-pandemic levels.** Prudent management and borrowing reduce the likelihood of debt distress, while ongoing efforts to develop the domestic capital market support funding operations of the National Government (NG) and the private sector.

E. **The Philippine banking system remains sound and stable backed by strong financial conditions and ample capital and liquidity buffers to absorb potential shocks to operations.** Leveraging on technological

[1] The 2012-based CPI series was in place when the government inflation target for 2021 was set in February 2019 and maintained during the December 2020 review.

advancements and strategic reforms undertaken by the BSP through the years, together with swift, time-bound, and targeted relief measures allowed the financial system to weather the COVID-19 pandemic from a position of strength. Moreover, the BSP remains steadfast in promoting responsible innovation and sustainability in the financial system and supporting the development of the domestic capital market.

F. Risk exposure of Government-Owned and -Controlled Corporations are prudently monitored to ensure financial sustainability and long-term viability of operations amidst continued financial contribution to the pandemic response and recovery initiatives to critical sectors.

G. **Collection of locally-sourced revenues of local government units increased, driven by the gradual re-opening of the economy.** Meanwhile, the implementation of the Mandanas-Garcia Ruling starting 2022 increases the National Tax Allocation (NTA) for LGUs. The Devolution Transition Plans (DTPs) of NGAs and LGUs aim for the smooth transfer of functions and responsibilities alongside capacity development programs for LGUs.

II. MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

A. Macroeconomic Performance

1. **After a 9.5 percent contraction in 2020, the Philippine economy grew by 5.7 percent in 2021, with employment increasing by 4.6 million or 11.7 percent.** This indicates that the economy is on its way to recovery that balances addressing the COVID-19 pandemic and the need to restore jobs and incomes of the people. The community quarantine restrictions imposed in 2021 have taken a more risk-based approach where more sectors were allowed to operate.

   The country's real gross domestic product (GDP) growth has improved from -3.8 percent in Q1 to 12.1 percent in Q2 2021. By ramping up the country's vaccination program and allowing more sectors to open, robust growth was sustained in Q3 at 7.0 percent despite the surge from the Delta variant. In Q4, the shift to the alert level system with granular lockdowns resulted in a faster growth at 7.8 percent. The government's policies to move from a pandemic to an endemic paradigm have led to broad-based expansions across almost all sectors, despite challenges brought about by the continued persistence of COVID-19 and the prevalence of natural hazards. **The FY 2021 real GDP growth outturn exceeded the Development Budget Coordination Committee's revised target of 5.0 to 5.5 percent.**[2]

   Among major emerging economies in the region, the Philippines' economic growth is faster than Indonesia (3.7 percent), Malaysia (3.1 percent), Vietnam (2.6 percent), and Thailand (1.6 percent), but slower than India (8.9 percent) and China (8.1 percent).

   Meanwhile, in the first quarter of 2022, the Philippine economy sustained its recovery with real GDP growth at 8.2 percent, surpassing its pre-pandemic level. The Philippines was one of the fastest growing economies in Asia for this period. The economy was able to sustain its recovery despite the surge of COVID-19 cases in January 2022 due to the Omicron variant. Several areas in the country have been de-escalated to alert level 2 in February and to alert level 1 in March given declining cases and increasing vaccination coverage.

2. **On the expenditure side, the recovery was led by robust growth in investments (20.3%) and household consumption (4.2%).** This was on the back of solid construction growth (11.1%) supported by the government's implementation of the Build, Build, Build infrastructure program, as well as returning consumer confidence resulting from relaxed quarantine restrictions and the accelerated vaccination program. Meanwhile, government spending (7.1%) also sustained its expansion. Overall domestic demand grew by 7.5 percent in FY 2021. Meanwhile, growth in total imports (13.0%) outpaced the increase in total exports (8.0%), resulting in a decline in net exports (-29.8%).

   On the other hand, growth in Q1 2022 was driven by private consumption which went up by 10.0 percent, a stark reversal from the -4.8 percent figure in the same period last year. With much-relaxed quarantine restrictions and more vaccinated Filipinos, family activities,

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[2] DBCC- approved target as of 14 December 2021.

leisure, and tourism have all grown significantly. Other expenditure items, such as investments and external trade, also expanded. Investments recorded a robust growth of 20.4 percent from -13.9 percent in the same period in 2021. Exports expanded by 10.4 percent, and imports grew by 15.4 percent.

Table 1. Philippines: Macroeconomic Performance for 2019-2022 and National Government Budget Assumptions for 2022 [a/]

(in percentage point, unless otherwise specified)

Particulars	2019		2020		2021		2022	
	BESF	Actual	BESF	Actual	BESF	Actual	BESF	YTD
Real GDP growth [b/]	7.0-8.0	5.9	6.5-7.5	-9.5	6.5-7.5	5.7	7.0-9.0	8.2 (Q1)
Inflation [c/] (2018=100)	2.0-4.0	2.5	2.0-4.0	2.6	2.0-4.0	4.5	2.0-4.0	4.1 (Jan- May)
364-day T-bill rate[d/]	3.0-4.5	5.2	5.0-6.0	2.4	3.0-4.5	1.7	2.0-3.5	1.7 (4 Jan- 30 May)
6-month LIBOR	2.0-3.0	2.3	1.5-2.5	0.7	1.0-2.0	0.2	0.3-1.3	1.2 (4 Jan-31 May)
Exchange rate *(PhP/US$1)*	50.00 - 53.00	51.80	51.00 - 55.00	49.62	50.00- 54.00	49.25	48.00- 53.00	51.79 (4 Jan – 31 May
Dubai crude oil price *(US$/barrel)*	50.00- 65.00	63.15	60.00- 75.00	42.15	35.00-50.00	68.77	50.0- 70.00	100.07 (4 Jan- 31 May)
Goods exports growth e/	9.0	2.9	6.0	-9.8r/	5.0	12.5r/	6.0	10.9 (Q1)
Goods imports growth e/	10.0	-0.2	8.0	-20.2r/	8.0	30.5r/	10.0	24.7 (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 2019 are 2000-based. For 2020, the target was 2000- based while the actual figure was 2018-based. For 2021-2022, the target and actual figures were 2018-based.

c/ CPI inlfation is 2012-based for 2019-2021 and 2018-based for 2022.

d/ Based on weighted average of primary market rates

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

r/ - revised actual, p/ - preliminary actual

n.a. – not available

3. **On the production side, the industry and services sectors grew by 8.5 percent and 5.4 percent in 2021, respectively, a strong rebound from large contractions in 2020.** In particular, manufacturing (8.8%), construction (10.0%), trade (4.2%), and transportation & storage (6.3%) have seen significant improvements, even though they have yet to return to pre-pandemic levels. Meanwhile, the agriculture sector experienced a slight decline of 0.3 percent due to the prevalence of African Swine Fever and the effect of super typhoons

which affected agricultural production.

In the first quarter of 2022, all sectors expanded, driven by industry and services at 10.5 percent and 8.3 percent, respectively. Meanwhile, agriculture slightly improved by 0.2 percent as growth was hindered by the African Swine Fever (ASF) and elevated prices of agricultural commodities such as corn, pork, and sugar.

4. **Using the 2012 CPI series, headline inflation averaged 4.5 percent[3] in 2021, which is higher than the 2.6 percent inflation in the previous year and above the government target of 3.0 ± 1.0 percent point for the year[4].** Higher inflation for food and non-alcoholic beverages, transport. and housing, water, electricity, gas, and other fuels were the main contributors to the rise in headline inflation in 2021.

   In the first five months of 2022, headline inflation averaged at 4.1 percent (using the 2018 CPI series), slightly above the government's inflation target range. Inflation started to rise in March amid faster price increases of key food items, particularly meat, fish, as well as vegetables. In addition, higher electricity rates and upward adjustments in domestic petroleum prices, driven by rising international crude oil prices, also pushed inflation for energy-related items higher thus far in 2022.

5. **The 364-day Treasury bill primary market rate trended downward**, settling at 1.7 percent in 2021, reflecting ample liquidity conditions in the Philippine financial system. The average rate for 2021 stood below the 2.4-percent average recorded in 2020 and the BESF assumption of 3.0-4.5 percent for 2021. Meanwhile, the secondary market rate stayed at 1.7 percent in 2021. The continued accommodative monetary policy stance of the BSP as well as low global interest rates helped keep domestic interest rates low during the year.

   The 364-day T-bill rate remained low in the first five months of 2022 with an average of 1.7 percent. Nonetheless, the monthly weighted averages were increasing during the period, indicating upward pressures from higher inflation expectations, the start of BSP's normalization of its monetary policy stance and liquidity measures, and the rise in global yields amid faster-than-expected policy rate hikes by the US Federal Reserve. Moreover, other global developments related to COVID-19 as well as the escalating Ukraine-Russia conflict brought in uncertainties that affected market sentiments.

6. **A lower 180-day London Interbank Offered Rate (LIBOR)[5] of 0.2 percent was recorded in 2021** from 0.7 percent in 2020. Central banks had maintained their accommodative monetary policy stance amid threats of an economic slowdown coming from new waves of

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[3] Using the 2018 CPI series, which was approved by the PSA Board on 4 January 2022 and implemented on 4 February 2022, the average CPI inflation for 2021 is 3.9 percent.

[4] It should be noted that the 2012 CPI series was in placed when the government inflation target for 2021 was set initially in February 2019 and maintained during the December 2020 review.

[5] The LIBOR will be replaced due to criticisms surrounding its computation such as the decline in number of banks reporting LIBOR since 2008 and reliance on "market and transaction data-based expert judgement". The Alternative Reference Rates Committee has recommended the use of Secured Overnight Financing Rate (SOFR) in place of LIBOR. The SOFR is based on actual done trades. It represents the cost of borrowing cash overnight collateralized by Treasury Securities. JP Morgan reported that as of 2 March 2022, 24 of the 35 LIBOR tenors have ceased publication; while the remaining tenors, including the 180-day USD LIBOR, will not be available after 30 June 2023 as previously announced by the Financial Conduct Authority (FCA).

coronavirus infections and persistent supply chain disruptions. The loose monetary policy stance of major central banks kept global interest rates low.

Meanwhile, the first five months of 2022 showed a higher 180-day LIBOR average of 1.2 percent relative to the 0.2-percent average in the same period in 2021. The 180-day LIBOR averaged 0.4 percent in January 2022 which rose to 2.0 percent in May 2022. The increase in foreign interest rates reflects tightening of global liquidity conditions as major central banks normalize monetary policy in response to rising global inflation pressures. For instance, the target Fed funds rate was adjusted upward by 50 basis points (bps) by the US Fed in May 2022 and by 75 bps in June 2022 to steer US inflation close to its implicit target. Similarly, the Bank of England (BoE) raised the Bank rate by a cumulative 75 bps in February to May 2022. While the European Central Bank (ECB) has maintained its policy rate thus far, it has signaled the expected conclusion of its net asset purchases in Q3 2022 and the possibility of a policy rate hike in July 2022.

7. **The country's firm macroeconomic fundamentals, broadening access to coronavirus vaccines, along with a favorable external payments position continued to provide support to the peso.** The peso-dollar rate averaged at ₱49.25/US$ in 2021, slightly lower than the BESF assumption of ₱50.00-54.00/US$ for 2021 and the 2020 average of ₱49.62/US$. However, the spread of the COVID-19 Delta variant and the subsequent reimposition of strict mobility protocols in the National Capital Region (NCR) and nearby provinces in Q3 2021 contributed to depreciation pressures during the said period.

   The peso depreciated further in January-May 2022, averaging at ₱51.79/US$, higher relative to the ₱48.25/US$-mean recorded in the same period in 2021. The depreciation in the peso was influenced mainly by the reimposition of strict quarantine protocols in the early part of the year, normalization of US monetary policy, and anticipation of further increases in US interest rates, as well as heightened market risk aversion amid the geopolitical tensions between Ukraine and Russia.

8. **Global crude oil prices rose in 2021 due to current supply-demand mismatch in the global oil market, which led to a decline in global oil inventories** The average per-barrel price of Dubai crude oil settled at US$68.77 in 2021, higher than its previous year's average of US$42.15 and the BESF assumption range of US$35.00-50.00 for 2021. Global crude oil prices rose in 2021 amid optimism over the oil demand outlook as the global economy showed signs of recovery.

   Dubai crude oil prices increased significantly thus far in 2022, averaging above US$100 per barrel in January-May 2022 due to concerns over potential supply disruptions following Russia's invasion of Ukraine and the impact of imposed and potential sanctions on Russia. The uptrend was tempered slightly by concerns over a possible weakening in global demand amid stringent COVID-19 containment measures in China. Consequently, domestic fuel prices increased, reflecting elevated global oil prices.

9. **Goods trade performed better than expected in 2021, even surpassing pre-pandemic levels, due mainly to the stronger rebound in global economic activity amid extensive vaccine rollouts and policy support in key economies.** Exports have been underpinned by renewed global demand for tech products, firmer commodity prices driving mineral and

agro-based exports, as well as the pick-up in domestic production capacity amid the phased easing of mobility restrictions. At the same time, shipments of imported goods picked up more sharply than previously anticipated with the recovery in domestic demand on increased mobility attributed to the nationwide rollout of the Alert Level System and widespread vaccinations.

10. **The 2021 goods exports reached US$54.2 billion, up by 12.5 percent from US$48.2 billion in 2020.** Electronic products continued to drive growth in 2021, along with exports of mineral and coconut products. On a by country basis, exports growth was mainly driven by demand from the top trade partners, particularly the US and China.

11. **Meanwhile, total imports registered growth of 30.5 percent in 2021 to US$107.0 billion from US$82.0 billion in the previous year** as imports of all major commodity groups recorded double-digit growth rates. On a by country basis, the continued acceleration of imports growth was mostly sourced from China, Indonesia, Japan, and South Korea

12. For the first quarter of 2022, exports of goods were recorded at US$14.3 billion, higher by 10.9 percent than the US$12.9 billion level registered in the same period in the previous year. Robust external demand for electronics (particularly semiconductors and telecommunication) continued to drive growth, along with increased exports of mineral products (largely copper metal) and coconut products (largely coconut oil).

13. Meanwhile, goods imports continued to rise, posting a 24.7 percent growth from US$24.0 billion in Q1 2021 to US$30.0 billion in Q1 2022. This was mainly attributable to the hefty increase in imports of mineral fuels and lubricants and higher imports of raw materials and intermediate goods.

B. Macroeconomic Outlook and Risks for 2022 - 2023

14. **The International Monetary Fund (IMF) expects global economic growth to slow down from 6.1 percent in 2021 to 3.6 percent in 2022 and 2023.**[6] This mainly reflects the impact of the Russia-Ukraine conflict on commodity markets, trade, and financial channels across the world. In addition, uncertainty due to the COVID-19 remains, while lockdowns of major cities and trade hubs in China under its zero-Covid policy contribute to further disruptions in the global supply chain.

15. **On 8 July 2022, the Development Budget Coordination Committee slightly revised its growth target for 2022 downward to 6.5 to 7.5 percent from 7.0 to 8.0 percent mainly due to heightened external risks** such as the Russia-Ukraine conflict, China's slowdown, and monetary normalization in the United States. Given the first semester real GDP growth of 7.8 percent, the Philippine economy needs to grow by at least 5.3 percent in the second semester to reach the low-end of the government's target for the year/

16. To sustain growth momentum, President Duterte issued Executive Order (EO) No. 166 adopting the ten-point policy agenda to accelerate and sustain economic recovery from the COVID- 19 pandemic and directing a whole-of-government approach to align all economic

[6] International Monetary Fund, World Economic Outlook, April 2022.

recovery programs and measures of the national government with the following principles:

i. Strengthen healthcare capacity
ii. Accelerate and expand the vaccination program
iii. Further reopen the economy and expand public transport capacity
iv. Resume face-to-face learning
v. Reduce restrictions on domestic travel and standardize LGU requirements
vi. Relax requirements for international travel
vii. Accelerate digital transformation through legislative measures
viii. Provide for enhanced and flexible emergency measures through legislation
ix. Shift the focus of decision making and government reporting to more useful and empowering metrics
x. Medium-term preparation for pandemic resilience

17. **However, risks to the growth outlook remain.** The country's economic managers are closely monitoring domestic and global developments to assess the situation and design appropriate interventions to cushion the adverse impact on ordinary Filipinos.

18. **The latest BSP assessment (as of the 23 June 2022 monetary policy meeting) indicates above-target inflation in 2022 and 2023 with risks to the inflation outlook leaning towards the upside in the near term, but remain broadly balanced for 2024.**[7] Upside risks over the near term emanate from higher global non-oil prices, higher fish prices, and the potential impact of higher oil prices on transport fares. Meanwhile, downside risks are linked mainly to the weaker-than-expected global recovery and the potential reimposition of local containment measures due to the lingering threat of COVID-19 infections.

The BSP supports the implementation of social protection measures to alleviate the impact of rising crude oil prices on vulnerable sectors. Sustained initiatives to ensure adequate domestic food supply could also mitigate further supply-side pressures on inflation.

19. On the domestic front, risks include inclement weather such as typhoons and other natural disasters, persistence of the African Swine Fever and occurrence of other biosecurity hazards, increased pressure on transport fares and wages given the uptick in commodity prices, and disruptions in value chains. Additionally, given the implementation of the Mandanas Ruling[8] this year, 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.

20. On the external front, a weaker-than-expected global recovery, spill-over effects of the Russia-Ukraine conflict on commodity prices, China's slowdown, monetary policy normalization, disruption in global value chains and financial markets, the potential

[7] As of the 23 June 2022 monetary policy meeting, the BSP's baseline forecasts indicate that headline inflation could average at 5.0 percent in 2022 and 4.2 percent in 2023, above the high-end of the 3 percent ± 1.0 percentage point inflation target, but would revert to within the target band in 2024 at 3.3 percent.

[8] Under the *Mandanas Ruling*, the Court ordered to include all collections of national taxes in the computation of the base of the just share of local government units (LGUs) except those accruing to special purpose funds and special allotments for the utilization and development of national wealth.

emergence of new COVID variants, monetary policy normalization, adverse climate shocks, and heightened geopolitical tensions may weigh on growth over the period.

21. **Global financial conditions are expected to tighten as advanced economy central banks, particularly the US Fed, respond to rising inflationary pressures as the world economy continues to recover.** In June 2022, the US Fed decided to raise the target Fed funds rate by 75 bps amid rising US inflation and improvements in the US labor market. Moreover, the US Fed expects to further increase its key policy rate by either 50 or 75 bps in a future meeting.[9] The policy normalization by the US Fed could contribute to a rise in global yields, which could pose depreciation pressures on emerging market currencies and impact capital flows and external borrowing.

22. **The Ukraine-Russia conflict poses upside risk to domestic inflation through higher global commodity prices; while the impact on the rest of the economy is expected to be minimal amid the country's geographical distance and limited financial linkages with the two countries.** The ongoing dispute could continue to keep the prices of international commodities—and consequently, of domestic goods, particularly oil—elevated. On the external sector, the Philippines' bilateral economic relations with Russia and Ukraine through trade, investments, remittances, and tourism are limited. However, possible ramifications of the geopolitical conflict reverberating to the wider European region and the global economy could also pose a significant risk to the country's trade and investment flows. Further escalation or delays in the resolution of the Ukraine-Russia strife could have repercussions on the Philippine economy, particularly on inflation, and may require continued decisive policy support from the government as the economy continues to recover from the pandemic.

23. **Logistic disruptions, supply shortages, and high freight costs could continue into 2022, negatively affecting inward trade while reshaping trade flows across the globe.** Supply disruptions continued into the second half of 2021, hindering global manufacturing, particularly in Europe, the US, and China, among others. Although there were signs of a global turnaround in November, following pickup in international trade and upside surprises for services activity and industrial production, these only partially offset earlier declines.

24. **The delayed ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement also poses a downside risk to growth as investors doubt the country's openness to trade and investment.** The country stands to miss out on the opportunity to attract foreign capital and expand markets should investments be diverted to economies that have already ratified the trade agreement. Investment promotion agencies, together with business chambers and industry associations, expressed support for the country's immediate entry to capitalize on the potential benefits of the mega-trade deal.

[9] The median Fed funds rate is projected to settle around 3.4 percent by end-2022, 3.8 percent by end-2023, and 3.4 percent by end-2024 according to the economic projections of the Federal Reserve Board members and Federal Reserve Bank presidents in June 2022. Sources: www.federalreserve.gov/mediacenter/files/FOMCpresconf20220615.pdf; www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20220615.pdf.

25. **The economy is projected to grow by 6.5 to 8.0 percent in 2023**[10] on the back of strategic interventions that will be implemented by the Marcos administration.

26. **In addition, the country will benefit from the expected increase in foreign investments** resulting from the enactment of the amendments to key economic liberalization bills namely the Retail Trade Liberalization Act, Foreign Investments Act, and Public Service Act.

Risk Mitigating Measures and Initiatives

Highlights of Reforms/Initiatives in 2016-2022

27. The government has introduced key reforms which are expected to yield net benefits to society and provide a robust foundation on which to build resiliency and support the recovery. Among the major reforms that have been implemented or enacted are:

    a. **Build Build Build (BBB) Program (2016 - present)**. Infrastructure spending increased further from 2016 to 2021, with its share of GDP averaging 4.8 percent.

    b. **Comprehensive Tax Reform Program (CTRP) (December 2017-present).** The CTRP aims to make the Philippine tax system simpler, fairer, and more efficient while generating a sustainable stream of revenues to finance the government's programs. The first two packages of the CTRP, the Tax Reform for Acceleration and Inclusion (TRAIN) Law and the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act reduced personal and corporate income taxes. Other legislated packages under the CTRP which boosted government coffers were the Tax Amnesty and the new Sin Tax Reform Laws. The succeeding packages will promote needed improvements in the real property valuation system and harmonize taxation in the financial sector.

    c. **Rice Tariffication Law (RTL) (February 2019).** The RTL opened the market for rice trade, which lowered and stabilized rice prices in the country. To balance the interests of farmers and those of consumers toward overall efficiency and economic growth, the law (a) replaces the quantitative restrictions on imported rice with tariffs of 35 to 40 percent, and (b) establishes the Rice Competitiveness Enhancement Fund (RCEF) coming from the tariff revenues.

    d. **Ease of Doing Business and Efficient Government Service Delivery (EODB-EGSD) Act (May 2018).** It directs all government agencies to streamline government processes, particularly those concerning business-to-government (B2G) and consumers-to-government (C2G) transactions and rationalize regulations.

    e. **Amendments to the Retail Trade Liberalization Act (December 2021) and Foreign Investments Act (March 2022), and Public Service Act (March 2022).** These recently signed laws will help accelerate economic recovery by attracting more foreign investments into the country, and increasing competition, which can help generate more employment opportunities.

    f. **Philippine Identification System (PhilSys) Act (August 2018).** This establishes a national digital ID system that will help accelerate the transition to the digital economy, making public service more technology-based and efficient,

[10] DBCC- approved targets as of 14 December 2021.

and further promoting financial inclusion in the country.

g. **Telecommuting Act (December 2018).** This law laid out the necessary legal framework to support measures to address the disruptions caused by the pandemic including the implementation of various flexible work arrangements (FWAs) in the public and private sectors (e.g., telecommuting, reduction of work hours/work days, and rotation of employees).

h. **The SSS Act (February 2019) created the legal basis for providing unemployment benefits to covered employees who were involuntarily separated from employment.** For FY 2020, ₱1.65 billion worth of unemployment benefits were provided to 127,824 members. Meanwhile, from January 2021 to March 13, 2022, SSS granted ₱1.26 billion to 99,477 members. The program is envisioned to be further revamped into a more comprehensive unemployment insurance system tied with active labor market programs.

i. **Universal Health Care (UHC) Act (February 2019).** The UHC Act aims to provide all Filipinos access to quality and affordable healthcare at all stages of life. The law automatically includes all Filipinos into the National Health Insurance Program and grants immediate eligibility and access to preventive, promotive, curative, rehabilitative, and palliative care, with primary care services as a priority.

28. Moreover, the government has implemented the following measures to support the economy amid the COVID-19 pandemic:

a. **Bayanihan to Heal as One Act or Bayanihan I** (allotment of ₱387.9 billion[11]) provided financial aid and support to vulnerable households and displaced workers (e.g. Social Amelioration Program, Small Business Wage Subsidy, COVID-19 Adjustment Measures Program, Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers) and directed resources to strengthen the healthcare system.

b. **Bayanihan to Recover as One Law or Bayanihan II** (allotment of ₱214.2 billion[12]) included health-related interventions, additional financial support to vulnerable households, assistance to workers and businesses in critically impacted sectors, and capital infusion to government financial institutions for low-interest loans and credit guarantees.

c. **Financial Assistance to National Capital Region (NCR) Plus Residents** around ₱22.9 billion in April-May 2021 and ₱14.7 billion[13] (NCR, Laguna and Bataan) in August 2021.

d. **The Financial Institutions Strategic Transfer (FIST) law** will let banks offload souring loans and assets and allow them to extend more credit to COVID-hit sectors in need of assistance.

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[11] Total allotments for Bayanihan I as of December 31, 2021. Source: https://www.dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases#bayanihan-1

[12] Total allotments for Bayanihan II as of December 31, 2021, which were sourced from the FY 2020 GAA, FY 2019 Continuing Appropriations, and Special Appropriations stipulated in RA 11494. Source: https://dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases#bayanihan-2

[13] DBM Local Budget Circulars 138 and 139, s. 2021.

e. **The 2022 General Appropriations Act (GAA) and extended 2021 budget** will continue to provide for the government's COVID-19 response programs such as health-related response programs, the Build, Build, Build (BBB) Program, and relevant programs that will generate employment, help communities adjust to the new normal, and sustain the momentum towards recovery.

29. **The government also expanded its vaccination program to children and adolescents aged 5 to 17 years old.** As of June 20, 2022, 70.0 million Filipinos have been fully vaccinated, and 14.7 million have received their booster shots. The government opened the vaccination to adolescents aged 12-17 years old in the second semester of 2021 and children from 5-11 years old in February 2022. The government aims to vaccinate 90 million individuals by the end of the second quarter of 2022.

Measures in the Pipeline and Policy Continuity Over the Next Administration

30. **The current broad policy directions are expected to be maintained post-presidential election in 2022,** similar to the policy continuity demonstrated during the previous elections. This is bolstered by Executive Order No. 5, series of 2016, which officially adopted the Ambisyon Natin 2040 as the country's long-term vision to guide medium-term development planning across different political administrations.

31. **The next Philippine Development Plan is expected to focus on the following: innovation** through the full implementation of the Philippine Innovation Act and ensuring that innovation drives future growth and prosperity; **regional equity** by strengthening infrastructure planning, budgeting, and monitoring linkages to improve the allocation of scarce resources; **smart infrastructure** that integrate transport development, digital communication, urban planning, land use, water use, and environmental protection that would result in smart cities and communities; and **climate change** resilience by increasing investments on appropriate and more effective climate change adaptation measures as well as mitigation measures with great adaptation co-benefits. These are the key points to support the country's recovery and achievement of *AmBisyon Natin* 2040.

III. FISCAL PERFORMANCE

A. REVENUE PERFORMANCE

32. **The National Government (NG) incurred a deficit of ₱1.67 trillion in 2021, 21.8 percent higher than the deficit in 2020, as expenditures grew at a quicker pace than revenues.** As a percent of GDP, the fiscal deficit increased to 8.6 percent in 2021 or 1 percentage point higher than in 2020.

33. Total revenue collection grew by 5.2 percent year-on-year (YoY) to reach ₱3.01 trillion. As a percent of GDP, it contracted to 15.5 percent from 15.9 percent in 2020. The lower revenue effort is largely due to the 25.2 percent YoY decline in non-tax revenues including grants and privatization stemming from lower dividend collections. Expenditures rose by 10.6 percent YoY, accounting for 24.1 percent of GDP from 23.5 percent in 2020.

34. Tax revenues amounted to ₱2.74 trillion. This is 9.5 percent or ₱238.26 billion higher compared to the 2020 level. Collections of both the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) grew substantially due to the lifting of quarantine restrictions and reopening of the economy. Tax revenues as a percentage of GDP improved by 0.1 percentage point to reach 14.1 percent in 2021 from 14.0 percent in 2020.

35. BIR collections for 2021 amounted to ₱2.08 trillion, higher by 6.5 percent compared to the 2020 collection of ₱1.95 trillion.

36. Revenue from the BOC reached ₱643.56 billion, ₱105.88 billion or 19.7 percent better than its collection in 2020. The double-digit growth is attributed to the reopening of global trade and the domestic economy. The registration of the Petron Bataan Refinery as a locator of the Authority of the Freeport Area of Bataan (AFAB) also contributed to the higher BOC collection since locators in ecozones and freeports are considered as outside the customs territory of the Philippines. Thus, the petroleum products coming out from AFAB are considered imports and as a result the taxes paid on these products are collected by BOC.

37. Non-tax collections, excluding privatization and grants, reached ₱262.18 in 2021 or ₱88.64 billion lower than in 2020, primarily driven by the lower income of the Bureau of the Treasury (BTr) and NG income collected by BTr. Both BTr income and NG income collected by BTr registered a 42.9 percent decrease in 2021 compared to 2020. BTr income in 2020 was higher due to non-recurrent revenues collected from government corporations and government offices as mandated under Bayanihan 1 to help fund the government's response against the pandemic in 2020. On the other hand, 2021 levels declined as dividend remittances by government-owned or -controlled corporations were closer to those of normal years. Total privatization and grants proceeds amounted to ₱675.52 million or lower by 5.6 percent compared with the 2020 level of ₱715.83 million.

Outlook for 2022 – 2024

38. Despite the reimposition of stringent quarantines in the early months of 2021 to contain the spread of the threat of the Delta variant, the Philippine economy grew by 5.7 percent in 2021 due to the easing of restrictions and increased mobility during most of the year

compared to the 2020's strict implementation of community quarantine. The growth target for 2022 was slightly adjusted to 6.5 to 7.5 percent to account for the recent external and domestic developments. With a positive growth performance for the first three months of 2022, the DBCC is optimistic that this growth momentum will continue for the rest of the year. This positive growth outlook is mainly driven by the increase in household consumption and private investments, along with a robust manufacturing industry, high vaccination rate, improved healthcare capacity, and the upward trend on tourism and employment that allowed to progressively re-open the economy. For 2023 and 2024, it is expected that the growth will be sustained and expanded to 6.5 to 8.0 percent.

39. The better-than-expected revenue collection performance in 2021 indicates that revenues are returning to pre-pandemic levels as we slowly re-open the economy. Revenues are expected to reach ₱3.30 trillion or 15.2 percent of GDP in 2022, ₱3.63 trillion or 15.3 percent of GDP in 2023, and ₱4.06 trillion or 15.6 percent of GDP in 2024. Meanwhile, tax revenues are estimated to reach ₱3.14 trillion or 14.5 percent of GDP in 2022, ₱3.46 trillion or 14.6 percent of GDP in 2023, and ₱3.89 trillion or 14.9 percent of GDP in 2024.

40. Some of the possible risks to the 2022 revenue outlook are the following:

a. Resurgence of COVID-19 infections with the spread of new and highly transmissible variants like the DeltaCron variant;

b. Increase of COVID-19 infections if minimum health standards are relaxed.

c. Imposition of localized community quarantines that includes liquor ban, curfew, among others;

d. Calamities such as volcanic eruptions, typhoons, and floods among others; and

e. Oil price volatility in the world market due the ongoing geopolitical conflict between Russia and Ukraine.

Table 2. Philippines: Medium Term Revenue Program, 2022-2024
(in billion pesos)

Particulars	2020 Actual	2021 Actual	2022 Program	2023 Program	2024 Program
Total revenues	**2,855.96**	**3,005.54**	**3,304.09**	**3,632.91**	**4,062.64**
% of GDP	*15.9%*	*15.5%*	*15.2%*	*15.3%*	*15.6%*
Tax revenues	**2,504.42**	**2,742.68**	**3,139.60**	**3,464.13**	**3,887.76**
% of GDP	*14.0%*	*14.1%*	*14.5%*	*14.6%*	*14.9%*
BIR	1,951.02	2,078.11	2,392.59	2,670.37	3,053.77
BOC	537.69	643.56	721.52	765.59	803.24
Other offices	15.71	21.01	25.49	28.18	30.75

Particulars	2020 Actual	2021 Actual	2022 Program	2023 Program	2024 Program
Non-tax revenues	**350.82**	**262.18**	**163.99**	**168.28**	**174.38**
Grants and privatization	**0.72**	**0.68**	**0.50**	**0.50**	**0.50**
Nominal GDP	***17,951.57***	***19,410.57***	***21,672.80***	***23,755.17***	***26.065.81***

Notes:
1. *Totals may not add-up due to rounding off.*
2. *Medium term revenue program are based on the July 8, 2022 DBCC - approved levels.*
3. *Projected nominal GDP for 2022 is the high-end estimate while the GDP for 2023 to 2024 are midpoint estimates shared by NEDA as of July 8, 2022.*

Sources: *Fiscal Policy and Planning Office (FPPO), Philippine Statistics Authority (PSA), and Development Budget Coordination Committee (DBCC).*

Table 3. Philippines: Medium Term Revenue Program, 2022-2024
(Growth rates)

Particulars	2020 Actual	2021 Actual	2022 Program	2023 Program	2024 Program
Total revenues	**-9.0%**	**5.2%**	**9.9%**	**10.0%**	**11.8%**
Tax revenues	**-11.4%**	**9.5%**	**14.6%**	**10..2%**	**12.2%**
BIR	-10.3%	6.5%	15.1%	11.6%	14.4%
BOC	-14.7%	19.7%	12.6%	5.6%	4.9%
Other offices	-28.0%	33.7%	21.4%	10.6%	9.2%
Non-tax revenues	**13.6%**	**-25.3%**	**-37.5%**	**2.6%**	**3.6%**
Grants and privatization	**-37.2%**	**-5.6%**	**-26.0%**	**0.0%**	**0.0%**

Note: *Totals may not add-up due to rounding off.*
Source: *FPPO*

Tax administration and reforms

41. Rigorous tax administration and reforms will continue to boost BIR and BOC revenues. Aggressive implementation of tax administration and governance reforms, such as e-receipts and digitalization for BIR and customs modernization program of BOC, will result in sustained growth in revenue collection, enhanced transparency, and elimination of tax evasion and smuggling. These reforms will also ensure that tax compliance is easy, efficient, and accessible.

42. Actual data showed that tax reform measures under Packages 1A (TRAIN), 1B (Tax Amnesty), and 2+ (Sin tax reforms) contributed ₱228.64 billion additional revenues or 1.2 percent of GDP in 2021. This was 58.7 percent or ₱84.61 billion higher than the 2020 tax collection of ₱144.02 billion. The improved collection reflects the recovery of the economy with the resumption of economic activities as quarantine restrictions were eased and higher consumer demand for excisable products. Package 1A or TRAIN revenue was ₱171.10 billion, 61.5 percent higher compared to the 2020 level of ₱105.95 billion. Sin tax laws or Package 2 plus revenue was ₱52.89 billion, 64.7 percent higher than the 2020 level of ₱32.12 billion.

43. The same measures are projected to contribute additional tax revenues of ₱237.33 billion in 2022. For 2023 and 2024, these measures will provide an additional ₱185.51 billion and ₱198.28 billion, respectively to the coffers of the National Government. For 2022, Package 1A and Package 2+ are estimated to be ₱181.74 billion and ₱55.59 billion, respectively. The lower tax collections starting 2023 is due to the second and last reduction of personal income tax (PIT) rates as mandated under TRAIN law, which is estimated to be ₱186.21 billion in 2023 and ₱211.54 billion in 2024.

44. Combined net proceeds from the comprehensive tax reform program (CTRP) and economic recovery measures (CREATE and FIST laws) are estimated to be at ₱116.58 billion in 2022, ₱67.62 billion in 2023, and ₱88.84 billion in 2024.

Table 4. Philippines: New measures, 2020-2024
(in billion pesos)

Particulars	2020 Actual	2021 Actual	2022 Program	2023 Program	2024 Program
Total	**144.02**	**228.64**	**116.58**	**67.62**	**88.84**
% of GDP	*0.8%*	*1.2%*	*0.5%*	*0.3%*	*0.3%*
Package 1A/TRAIN [2]	**105.95**	**171.10**	**181.74**	**114.87**	**117.72**
% of GDP	*0.6%*	*0.9%*	*0.8%*	*0.5%*	*0.5%*
Package 1B/Tax amnesty [2]	**5.96**	**4.65**	**0.00**	**0.00**	**0.00**
% of GDP	*0.03%*	*0.02%*	*0.0%*	*0.0%*	*0.0%*
Package 2+/Sin tax reform [2]	**32.12**	**52.89**	**55.59**	**70.64**	**80.56**
% of GDP	*0.2%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
Package 2/CREATE [2,3]		**-**	**-118.79**	**-115.01**	**-106.55**
% of GDP			*-0.6%*	*-0.5%*	*-0.4%*
FIST law [3]		**-**	**-1.97**	**-2.89**	**-2.89**
% of GDP			*-0.01%*	*-0.01%*	*-0.01%*
Nominal GDP	***17,938.58***	***19,387.21***	***21,546.21***	***23,456.60***	***25,490.67***

Notes:
1. *Totals may not add-up due to rounding off.*
2. *Packages under the comprehensive tax reform program.*
3. *CREATE and FIST laws are economic recovery measures that took effect in 2021. The corresponding actual revenue losses are not available.*
4. *Medium term revenue estimates on new measures for 2022, 2023, and 2024 are December 14, 2021 DBCC levels.*

5. *Projected nominal GDP for 2022, 2023, and 2024 are midpoint estimates shared by NEDA on Dec 11, 2021.*
Sources: *FPPO, PSA, and DBCC.*

Table 5. Philippines: New measures, 2021 - 2024 *(Growth rates)*

Particulars	2021 Prelim	2022 Program	2023 Program	2024 Program
Total	**58.7%**	**-49.0%**	**-42.0%**	**31.4%**
Package 1A/TRAIN	61.5%	6.2%	-36.8%	2.5%
Package 1B/Tax amnesty	-22.1%	-	-	-
Package 2+/Sin tax reform	64.7%	5.1%	27.1%	14.0%
Package 2/CREATE [2]	-	-	-3.2%	-7.4%
FIST law [2]	-	-	46.9%	-

Notes:
1. *Totals may not add-up due to rounding off.*
2. *The corresponding actual revenue losses are not available.*

Source: *FPPO*

B. EXPENDITURE PERFORMANCE

2021 Disbursement Performance [14]

45. **As of end-December 2021, the NG spending closed at ₱4,675.6 billion, higher by ₱448.2 billion or 10.6 percent YoY but fell short by ₱61.5 billion or 1.3 percent lower than ₱4,737.1 billion program.** The disbursement performance for the previous year was driven mainly by Infrastructure spending (₱213.6 billion or 31.3 percent YoY), Personnel Services (₱110.1 billion or 9.3 percent YoY), and Transfers to LGUs (₱88.1 billion or 10.9 percent YoY).

The significant expansion in infrastructure and other capital outlays was due to the combined effects of the: i) lower base in 2020 with the discontinuation of some capital outlay projects which could no longer be implemented or completed due to the pandemic pursuant to the Bayanihan I and II Laws, and the ii) implementation of various infrastructure projects of the DPWH nationwide (e.g. road network, flood control, construction of multi-purpose buildings), and the aviation and rail transport foreign-assisted projects of the DOTr (e.g. Tacloban, Kalibo, and Bukidnon Airport Projects, Metro Manila Subway Project Phase I).

Meanwhile, the growth in PS expenditures was mainly attributed to the implementation of the second tranche of salary adjustment under the SSL V, pension and retirement claims, pension differential of MUP, and the creation and filling-up of unfilled positions in various agencies. Likewise, the increase in the combined allotment and capital transfers to LGUs was attributed to higher NTA of LGUs, releases for the annual block grant to the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), and releases from the

[14] Department of Budget and Management (DBM), *National Government Disbursement Performance Report (as of December 2021), available at* https://www.dbm.gov.ph/wp-content/uploads/DBCC/2021/NG-Disbursements_December-2021_for-posting.pdf (last accessed Mar. 29, 2022).

Local Government Support Fund - Support to Barangay Development Program (LGSF-SBDP).

46. All expense classes recorded a higher spending YoY except for maintenance spending and subsidy owing to the high base effect of the substantial one-time implementation of the Small Business Wage Subsidy Program under the Social Security System (SSS) and the conclusion of the UCT Program in 2020.

47. Despite the higher turnout when compared to the previous year, the spending performance was still lower than the program due to the lower-than-programmed interest payments, maintenance spending, and subsidies.

Outlook for 2022

48. The President signed into law the ₱5.024 trillion 2022 National Budget on December 30, 2021. This is equivalent to 23.3 percent of GDP, and 11.5 percent higher than the 2021 budget of ₱4.506 trillion.

The budget, anchored in the theme *"Sustaining the Legacy of Real Change for the Future Generations"*, will support programs that focus on building resilience amidst the pandemic, sustaining the momentum towards recovery, and continuing the legacy of infrastructure development. [15] Summarized in Table A are the key spending priorities for this year.

Table 6. Philippines: Spending Priorities under the FY 2022 National Budget

Purpose	Amount	Remarks
Affordable and accessible healthcare for all	₱88.9 billion	Health Facilities Operations Program
	₱80.0 billion	National Health Insurance Program to subsidize the health premiums of indigent families and senior citizens
	₱51.0 billion	Special Risk Allowance of health workers *(P9.0 billion lodged in the DOH budget and P42.0 billion under Unprogrammed Appropriations)*
	₱48.2 billion	Purchase of COVID-19 booster shots of fully vaccinated Filipinos *(P2.8 billion lodged in the DOH budget and P45.4 billion under Unprogrammed Appropriations)*
	₱32.6 billion	Procurement of drugs, medicines, and vaccines
	₱23.0 billion	Health Facilities Enhancement Program which will enable the construction, upgrade, expansion, and procurement of equipment for health facilities and hospitals

[15] DBM, *Recovery, Growth, and Sustainability Highlighted in the Signed FY 2022 National Budget, available at* https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2036-recovery-growth-and-sustainability-highlighted-in-the-signed-fy-2022-national-budget (last accessed Mar. 29, 2022).

Purpose	Amount	Remarks
	₱983.0 million	Establishment of the Virology Science and Technology Institute of the Philippines
	₱200.0 million	Philippine Genomic Information Resource Hub to sustain its genomic biosurveillance efforts
Socioeconomic Recovery	₱26.5 billion	*Tulong Panghanapbuhay sa Ating* Disadvantaged/Displaced Workers (TUPAD) Program and Government Internship Program (GIP)
	₱52.7 million	Reintegration Services Program
Social Protection	₱107.7 billion	Pantawid Pamilyang Pilipino Program
	₱18.0 billion	Protective Services for Individuals and Families in Difficult Circumstances
	₱4.7 billion	Sustainable Livelihood Program
Education	₱14.7 billion	Basic Education Learning Continuity Plan
	₱11.8 billion	Computerization Program
Modernized System of Governance	₱4.8 billion	Philippine Identification System
	₱1.5 billion	National Broadband Plan
	₱574.0 million	Community-Based Monitoring System
Infrastructure Development	₱786.6 billion	DPWH core programs (Network Development Program, Flood Management Program, etc.)
	₱75.8 billion	DOTr core programs (Rail Transport Program, Land Public Transportation Program, etc.)

Sources of Fiscal Risks

<u>Ballooning Retirement and Pension Requirements of Military and Uniformed Personnel</u>

49. The looming risk to the fiscal position due to ballooning pension requirements has been a pervasive issue that had been discussed in previous iterations of this Report, and various developments continue to stress the dire need for pension reform.

An actuarial study by the GSIS pegs the total unfunded liabilities of the current MUP pension system at ₱5.7 trillion, corresponding to a significant portion of the country's GDP without even accounting for the funding requirements of new entrants to the system. This concern is exacerbated by unprecedented growth in pension liabilities vis-à-vis MOOE for MUP services, which after convergence, would lead to an absurd situation where the NG spends more on financing pension requirements than maintaining its armed forces, *cet.*

par. As of 2021, MUP arrearages worth ₱57 billion remain unmet since the salary adjustment given to MUPs under Joint Resolution No. 1, s. 2018.

50. While the grant of ample pensions to MUPs is recognized and understood in light of the crucial object of national security and the risks inherent to their duties, allowing its unmitigated growth without balancing the same against the NG's fiscal position runs counter to fiscal prudence and the principles of sound public financial management. As current MUP pension requirements are funded directly by the national budget, its funding is necessarily tied to government financing, as well as any fiscal and/or economic shocks affecting the latter. Likewise, the NG and its fiscal position are also affected by changes in MUP pension requirements due to new entrants, annual indexation, and salary increases.

51. Pension reform would need to address not only the unfunded liabilities and arrearages, but also the sustainability of the pension system moving forward. It should contain appropriate mechanisms that would ease annual requirements and provide a safety valve to indexation in case of unmanageable public sector deficits.

a. House Bill No. 9674, otherwise known as the Military and Uniformed Personnel Pension Act and currently pending in Congress, seeks to reorient the pension system with said mechanisms in mind. While broadly preserving the current structure of the system, the proposal introduces the following key features:
   i. Limitation of pension growth to a 5 percent annual cap on MUP salary; increases for the next 10 years after effectivity;
   ii. Removal of automatic indexation for new entrants;
   iii. Grant of a monthly disability pension in place of disability benefits;
   iv. Power to limit the increase in pensions to rates lower than salary growth in case of an unmanageable public sector deficit;
   v. Creation of an MUP Trust Fund, which shall be exempt from all taxes;
   vi. Imposition of mandatory contributions to mirror civil servant contributions; and
   vii. Measures to provide budgetary support and risk assessment to the Trust Fund.

b. If given due course, the new pension scheme is seen to reduce unfunded liabilities to ₱4.3 trillion, a 55.2 percent decrease from the status quo estimate of ₱9.6 trillion.

c. It is noted that the culmination of the 18th Congress and the national elections would forestall, if not completely reset, the passage of the bill. However, the need for the reform remains unchanged and the next administration should endeavor for its passage as further delay would jeopardize not only the MUP pension system itself but also the NG's fiscal position.

Policy Continuity in View of the 2022 National and Local Elections

52. The national and local elections have culminated with the incumbency of the next set of leaders and are expected to bring about shifts in the NG's development priorities and administrative tenor. But while there is general uncertainty as to the actual subjects of such priorities, the overall direction of priorities will be aligned under the *AmBisyon Natin 2040*, which represents the collective and long-term vision of the Filipino people and forms the basis for development planning for the next three administrations.

53. Policy safeguards are not limited to development planning, but also abound in areas of public financial management. Executive issuances providing for the Cash Budgeting

System and the Treasury Single Account, among others, are seen to provide adequate support to fiscal transparency and sound public financing.[16]

a. Regardless, the NG continues to call for the passage of the Budget Modernization Bill to enshrine as law effective and efficient public financial management practices which have been refined across previous administrations. The 18th Congress version of the Bill seeks to:
    i. Resolve the fragmented legal framework of the PFM system;
    ii. Modernize the country's budgeting system by establishing holistic and internationally-established principles aimed at providing efficiency, transparency, and accountability in the use of public resources;
    iii. Support expansionary fiscal policy of the government for economic recovery; and
    iv. Flesh out standards for internal audit oversight mechanisms and public participation.

Natural Disasters

54. Based on the latest disaster reports of the National Disaster Risk Reduction and Management Council, the combined damages to the agriculture sector brought by typhoons Auring, Bising, Dante, and Odette amounted to ₱18.27 billion. [17] Among the typhoons that hit the country in 2021, typhoon Odette recorded the highest damage to the agriculture sector which amounted to ₱17.75 billion. As of writing, the DBM has already released a total of ₱7.68 billion to local and national government agencies to assist in the recovery of the hard-stricken regions affected by the typhoon.[18] In the joint statement issued by the economic managers on the performance for the fourth quarter full year 2021, it was cited that the slight decline in the economic growth was attributed to the devastating effects of the super typhoons on the agriculture sector. Nonetheless, its impact was tempered by the positive growth of the other sectors.[19]

55. The National Disaster Risk Reduction and Management Fund (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.[20] As of May 31, 2022, the National Disaster Risk Reduction and Management Fund and the Quick Response Fund (QRF) have total balances of ₱20.70 billion and ₱6.35 billion, respectively, and are indicated in Tables 7 and 8 below.

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[16] *See* Executive Order No. 55, s. 2011; Executive Order No. 91, s. 2019; Department of Finance Department Circular No. 1, s. 2015; *and* Department of Budget and Management National Budget Circular No. 581 (2020).

[17] *See* latest Situational Disaster Reports of the National Disaster Risk Reduction and Management, *available at* https://ndrrmc.gov.ph/index.php/disaster-reports.html (last accessed Mar. 22, 2022).

[18] DBM, *LGUs Receive Additional P4.85 Billion for Typhoon Odette, at* https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2043-lgus-receive-additional-p4-85-billion-for-typhoon-odette (last accessed Mar. 22, 2022).

[19] *See* Joint statement of the Duterte administration's economic managers on the economic performance for the fourth quarter and full year 2021, *at* https://neda.gov.ph/joint-statement-of-the-duterte-administrations-economic-managers-on-the-philippine-economic-performance-for-the-fourth-quarter-and-full-year-of-2021/ (last accessed Mar. 29, 2022).

[20] National Disaster Risk Reduction and Management Fund, Rep. Act No. 11639, *available at* https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2022/VolumeI/NDRRMF.pdf (last accessed Mar. 29, 2022).

Table 7. Philippines: Breakdown of the National Disaster Risk Reduction and Management Fund
(In million pesos)

Particulars	FY 2021 Continuing Appropriations	FY 2022 Current Appropriations
NDRRM Program	364.00	19,000.00
Marawi Recovery Rehabilitation and Reconstruction Program	335.66	1,000.00
Total	**699.66**	**20,000.00**

Table 8. FY2022 Agency QRF Breakdown
(In million pesos)

Particulars	Allocation
DA-OSEC	1,000.00
DEPED-OSEC	2,000.00
DOH-OSEC	500.00
DILG-BFP	50.00
DILG-PNP	50.00
DND-OCD	500.00
DPWH-OSEC	1,000.00
DSWD-OSEC	1,250.00
Total	**6,350.00**

56. In a situation report of the National Disaster Risk Reduction and Management Council, it estimated that about 1,000 families living in 14 barangays are now affected due to the volcanic activity of Taal. As of writing, the volcano's alert level status was raised to Level 3 (magmatic unrest) due to a phreatomagmatic eruption, an explosion that occurs when magma and water interact.[21]

It can be recalled that the most recent eruption of the volcano was on January 2020. Based on the estimates of NEDA, damage to assets as well as forgone income amounted to at least ₱8.4 billion. [22] Assistance to the affected community was extended by both the private and public sectors, with a portion of the latter tapped from the NDRRMF.

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[21] *See* Priam Nepomuceno, *Taal unrest displaces 3.9K residents,* PHILIPPINE NEWS AGENCY, March 28, 2022, *available at* https://www.pna.gov.ph/articles/1170766 (last accessed Mar. 29, 2022).

[22] *See* Beatrice M. Laforga, *Damage from November typhoons, eruption of Taal in 2020 reckoned at P113 billion,* BUSINESS WORLD ONLINE, March 4, 2021, *available at* https://www.bworldonline.com/damage-from-november-typhoons-eruption-of-taal-in-2020-reckoned-at-p113-billion/ (last accessed Mar. 29, 2022).

Box 1. CASH BUDGETING SYSTEM

The Cash Budgeting System (CBS) is among the significant reforms instituted to support the expansionary fiscal policy of the government, promote fiscal discipline among the agencies and instrumentalities of government, improve the government's capacity to honor its obligations, and elevate the Philippine budgeting system to be at par with international standards.[2]

Under the CBS, funds for government programs appropriated for a particular fiscal year must be obligated and disbursed within the same fiscal year. Specifically, payments for goods and services delivered, inspected, and accepted should be settled within the same fiscal year up to the Extended Payment Period (EPP) of three (3) months following the end of the fiscal year. Otherwise stated, the CBS intends to shorten the implementation and disbursement timelines of the annual budget to one year, with the objective of accelerating the delivery of goods and services to the public to support economic growth and development.[3]

While formally instituted by virtue of Executive Order (EO) No. 91, s. 2019, the DBM had already started the transition as early as 2017. Since its implementation, obligation rates by agencies have remarkably improved by as much as 11 ppts in 2017 at 95.6 percent from 84.6 percent in 2016. In addition, timing of agency disbursements in 2019 was seen to have become more equalized across quarters and may be duly attributed to the CBS after its formal enactment via E.O. No. 91, s. 2019.

However, despite observed improvements in obligation and disbursement rates in 2019, the overall long-term impact of the CBS has yet to be fully realized. Such determination has been forestalled by the COVID-19 pandemic in 2020, which necessitated quarantine restrictions that weighed in on government operations for the same year. For reference, summarized below is the transitional implementation of the CBS from FY 2019 to FY 2022, which were adopted (i) to prepare and capacitate the various instrumentalities of the NG towards the implementation of CBS and (ii) to aid in economic recovery amid the COVID-19 pandemic.

Summary of the Transitional Implementation of the Cash Budgeting System

<table>
<tr><th>FY</th><th>EXPENSE CLASS</th><th>OBLIGATION</th><th>IMPLEMENTATION</th><th>EPP</th><th>LEGAL BASIS</th></tr>
<tr><td rowspan="3">2019</td><td>PS</td><td rowspan="3">Until December 31, 2020</td><td colspan="2">Until December 31, 2020</td><td rowspan="3">RA 11464 [4] and clarified under Section 3.5 of NBC 578 dated January 6, 2020 [5]</td></tr>
<tr><td>MOOE & Non-Infra CO</td><td colspan="2">Until June 30, 2021</td></tr>
<tr><td>Infra CO</td><td colspan="2">Until December 31, 2021</td></tr>
<tr><td rowspan="3">2020</td><td>PS</td><td colspan="3" rowspan="3">Until December 31, 2021</td><td rowspan="3">RA 11520 [6]</td></tr>
<tr><td>MOOE & Non-Infra CO</td></tr>
<tr><td>Infra CO</td></tr>
</table>

2021	PS	Until December 31, 2021	RA 11640 [7]
	MOOE & Non-Infra CO	Until December 31, 2022	
	Infra CO		
2022	PS	Until December 31, 2022	RA 11639 [8]
	MOOE & Non-Infra CO	Until December 31, 2023	
	Infra CO		

As distinguished from the obligation-based system

The shift to CBS affects obligations as to: (i) the timing of delivery; and (ii) when they should be paid and settled.

For one, in an obligation-based budget, contracts which are awarded before the end of the fiscal year can be delivered even after the fiscal year, which leads to a situation where an agency would have a balance of obligations that are yet to be due and demandable. Conversely, under CBS, contracts should be fully delivered by the 31st of December, effectively avoiding the scenario arising from an obligation-based system. This change is intended to wean agencies off their sense of complacency and push them to be more disciplined in the management of the budget resources they are provided.

The other distinction is with regard to the timing of payment and settlement of obligations. In an obligation-based budget, the inspection, acceptance, and payment of goods and services provided and rendered can be done even after the fiscal year. This gives rise to running balances of accounts payable which are already due and demandable. Under the CBS, such scenario is unlikely to happen, or if at all, it would be limited to the EPP of three (3) months following the end of the fiscal year.

[1] Executive Order No. 91, s. 2019, *available at* https://www.officialgazette.gov.ph/downloads/2019/09sep/20190909-EO-91-RRD.pdf (last accessed Mar. 29, 2022).
[2] *See* DBM, *Reforming the Philippine Budgeting System: A Modern and Open Cash-Based Budget for Disciplined, Accountable, and Faster Service Delivery*, *available at* https://www.dbm.gov.ph/images/pdffiles/DBM-ACBA-FY-2019.pdf (last accessed Mar. 29, 2022).
[3] *See* DBM, *Reforming the Philippine Budgeting System: towards economic growth and poverty reduction; a primer on the annual cash-based appropriations*, *available at* https://www.dbm.gov.ph/images/pdffiles/EDITED-FOR-UPLOADING-Primer-on-Reforming-the-Philippine-Budget_04052018-2.pdf (last accessed Mar. 29, 2022).
[4] An Act Extending the Validity of the 2019 Appropriations to December 31, 2020, Amending for the Purpose Section 65 of the General Provisions of Republic Act No. 11260, the General Appropriations Act of Fiscal Year 2019
[5] DBM, National Budget Circular No. 578 (2020). Guidelines on the Release of Funds for FY 2020.
[6] An Act extending the availability of the 2020 appropriations to December 31, 2021, amending for the purpose Section 60 of the General Provisions of the Republic Act No. 11465 or the General Appropriations Act of Fiscal Year 2020.
[7] An Act Extending the Availability of the 2021 Appropriations to December 31, 2022, amending for the purpose Section 62 of the General Provisions of Republic Act No. 11518, the General Appropriations Act of Fiscal Year 2021.
[8] General Appropriations Act (GAA) for Fiscal Year 2022, entitled Appropriating funds for the operations of the government of the Republic of the Philippines from January 1 to December 31, 2022.

Box 2. MANDANAS RULING AND THE NATIONAL TAX ALLOTMENT

The Supreme Court decision in Congressman Hermilando I. Mandanas, et al. vs. Executive Secretary Paquito Ochoa, Jr. et al. and Honorable Enrique T. Garcia, Jr., vs. Executive Secretary Paquito Ochoa, et al. (G.R. Nos. 199802 and 208488 dated July 3, 2018 or (*Mandanas Ruling*) corrected the determination of the just share of local government units from the collections of the national government (NG). Specifically, under the *Mandanas Ruling*, the Court ordered to include all collections of national taxes in the computation of the base of the just share of local government units (LGUs) except those accruing to special purpose funds and special allotments for the utilization and development of national wealth.

As a result, for 2022, based on the certifications issued by the BIR, BOC and BTr, the total National Tax Allotment (NTA) of LGUs amounts to ₱959.04 billion. This is ₱263.55 billion or 37.89 percent higher than the ₱695.49 billion Internal Revenue Allotment shares of LGUs in 2021. This is also ₱185.17 billion higher than the ₱773.87 billion NTA for FY 2022 without the *Mandanas Ruling*.

The expansion of the revenue base for the NTA shares of LGUs effectively reduces the available resources of the NG for its priority programs and projects. Conversely, the substantial increase in the shares of LGUs from national taxes will empower them in providing basic services and facilities to their constituents. To optimize the increase in the available resources for LGUs and empower them to provide better basic goods and services to their constituents, Executive Order (EO) No. 138 s.2021[2] was issued by the President on June 1, 2021.

There remains an uncertainty in the implementation of the discontinued and scaled down programs of National Government Agencies (NGAs) by the LGUs. In recognition of the differing levels of capacities of LGUs both technically and financially, EO 138 lays down the overall framework and strategies that will facilitate the smooth transition towards full devolution. Section 5 of the EO provides for the preparation of Devolution Transition Plans (DTPs) of both NGAs and LGUs, with the DTPs to help not only assess the gaps in the provision of goods and services but also facilitate the complementation of the functions of NGAs and LGUs.

As of March 24, 2022, a total of 18 NGAs and GOCCs have submitted their DTPs[3]. These are in various stages of the evaluation and approval process. Meanwhile, as of March 16, 2022, the status of completed submission by level of LGU is as follows:

LGU Level	Completion Rate (%)
Provinces/ HUCs/ ICC/ NCR LGUs	89.00
Cities/ Municipalities	97.00
Barangays	99.79

Source: DILG

In addition to the preparation of DTPs, EO 138 also emphasizes the importance of capacity development in ensuring the efficient and smooth delivery of devolved services. The Department of the Interior and Local Government (DILG), through its Local Government Academy (LGA), shall oversee the provision of capacity development interventions for LGUs. Currently, the LGA is in the process of analyzing the Capacity Development Agenda of LGUs. This is notwithstanding their continued implementation of regular capacity development programs.

Completion of the transition plans and the conduct of capacity development initiatives in 2022 are paramount as the sizeable increase in the NTA shares this year may be short-lived. The FY 2023 NTA will be based on the FY 2020 actual collections which are lower relative to the FY 2019 collections due to limited economic activity brought about by the global health crisis. For FY 2023, the indicative NTA shares is ₱820.3 billion[4], 14.47 percent lower than the NTA shares received by LGUs in FY 2022.

[1] Local Budget Memorandum 82 - Indicative FY 2022 National Tax Allotment (NTA) Shares of Local Government Units (LGUs) and Guidelines on the Preparation of the FY 2022 Annual Budgets of LGUs dated June 14, 2021
[2] Executive Order No. 138 s.2021 – 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
[3] Expected number of submissions: 20 DTPs
[4] Local Budget Memorandum 85 – Indicative FY 2023 National Tax Allotment (NTA) Shares of Local Government Units (LGUs) and Guidelines on the Preparation of the FY 2023 Annual Budgets of LGUs dated June 15, 2022

IV. PUBLIC DEBT

57. For 2021, the NG raised ₱2,252.1 billion from the original borrowing target of ₱3,072 billion. This resulted from a significantly narrower budget deficit of ₱1,670 billion or 8.6 percent of GDP compared to the original estimate of ₱1,855.6 billion or 9.3 percent of GDP. The lower financing outcome, already reflecting the settlement of the ₱540 billion short-term credit line from the BSP in the early part of 2021 for liquidity management, was made possible by the NG's higher-than-target revenue uptake amidst the gradual re-opening of economic activities in the country.

58. The still-elevated deficit in response to the COVID-19 pandemic led to a substantial increase in the NG debt-to-GDP ratio from 54.6 percent in 2020 to 60.5 percent in 2021. However, this level still remains within bounds of fiscal viability and long-term sustainability on account of the favorable and resilient structure of the NG debt profile.

Table 9. Philippines: NG Debt Indicators, 2019-2021

Particulars	2019	2020	2021
National Government Debt			
% of GDP	39.6	54.6	60.5
By Currency (% to total)			
Peso	67.7	69.4	69.5
Foreign	32.3	30.6	30.5
By Interest Rate Type (% to total)			
Fixed	91.1	90.1	89.8
Floating	8.9	9.9	10.2
By Maturity Type (% to total)			
Long Term	75.9	67.3	66.6
Medium Term	17.8	23.0	26.6
Short Term	6.4	9.8	6.8
Interest Payments			
% of Revenues	11.5	13.3	14.3
% of Expenditures	9.5	9.0	9.2

Source: BTr

59. The higher financing requirement was attained at the lowest possible cost while ensuring the manageability of the resulting NG debt obligations. This was accomplished through a responsive borrowing program that took advantage of strong market support and the accommodative monetary policy stance of the BSP, which has allowed the continuous heavy bias for domestic financing that reduces the foreign currency risk exposure of the NG debt portfolio.

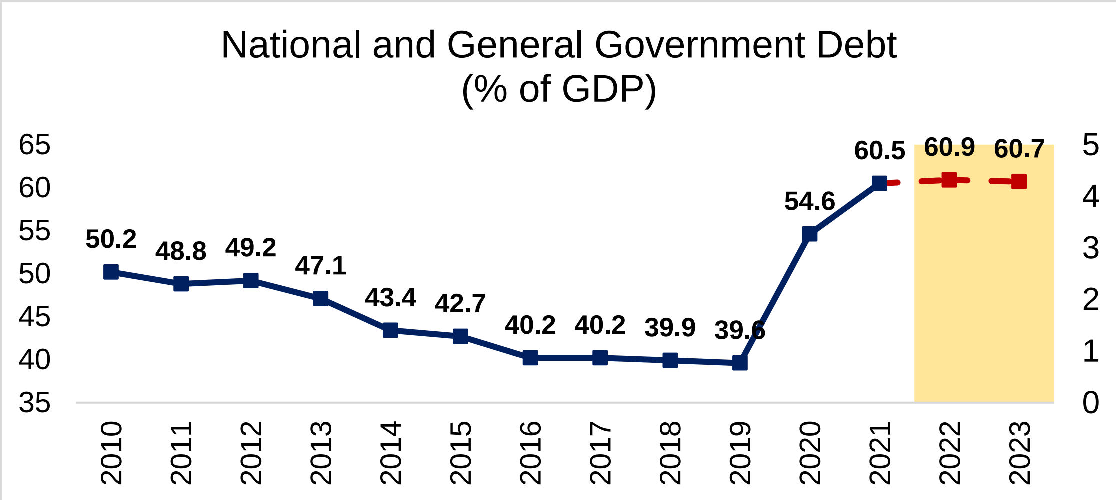
60. Pro-active pursuit of liability management transactions such as bond exchanges are done whenever market conditions are conducive to further lengthen the maturity profile of the NG debt, thus minimizing the risk of refinancing or non-repayment of NG debt. Meanwhile, there is minimal risk exposure to interest rate re-setting with NG debt having fixed interest rates at 90.0 percent.

61. Moreover, the debt servicing burden remains manageable due to lower borrowing costs. Interest payments in proportion to expenditures settled at 9.2 percent as of end-2021 from 9.5 percent in 2019, indicating that more fiscal space is being channeled towards productive spending. On the other hand, interest payments relative to revenues in 2021 at 14.3 percent is still better than 2015's level at 14.7 percent.

Outlook and Sources of Fiscal Risks

62. For the end of 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.

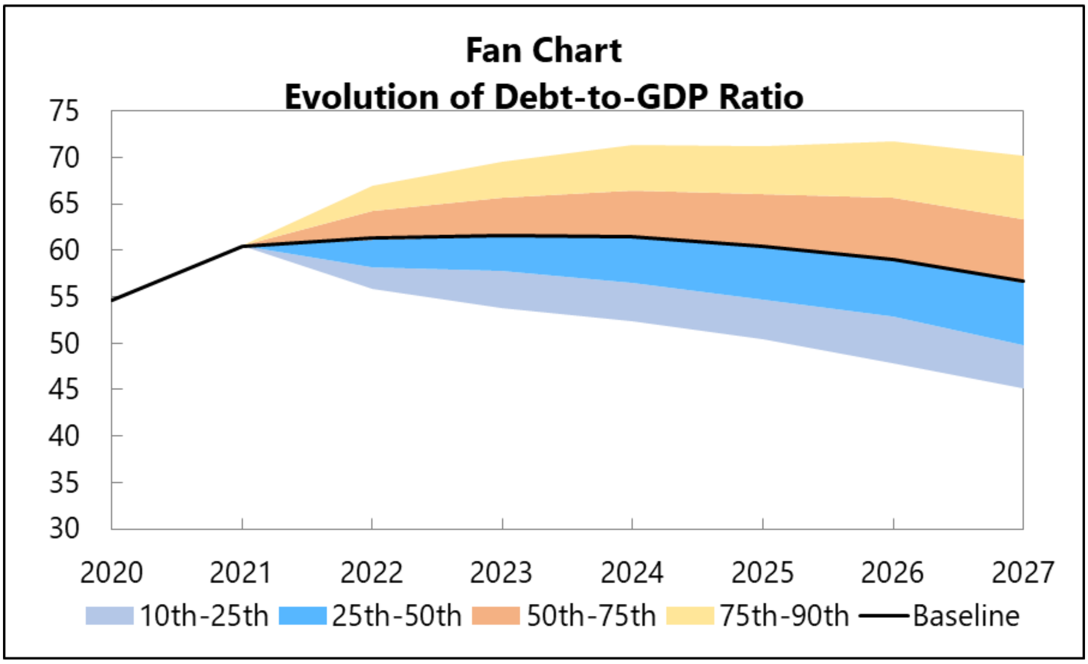
Figure 1. Philippines: Medium-Term Debt-to-GDP Ratio, 2010-2023



63. 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.

64. **The Debt Sustainability Analysis (DSA) indicates that the country's Debt-to-GDP ratio will steadily decline over the medium-term in line with the country's objective of long-term debt sustainability.** The baseline scenario using the 181st DBCC Medium-Term assumptions programmed the fiscal deficit to gradually decline from 7.6 percent in 2022 to 4.1 percent in 2025 as the NG slowly withdraws COVID-19-related fiscal support and assumes fiscal consolidation. The NG debt trend is expected to reach its peak and plateau at 61 percent until 2023, whereupon it would follow a downward trajectory as the fiscal deficit narrows further and GDP growth continuously improves in the medium-term.

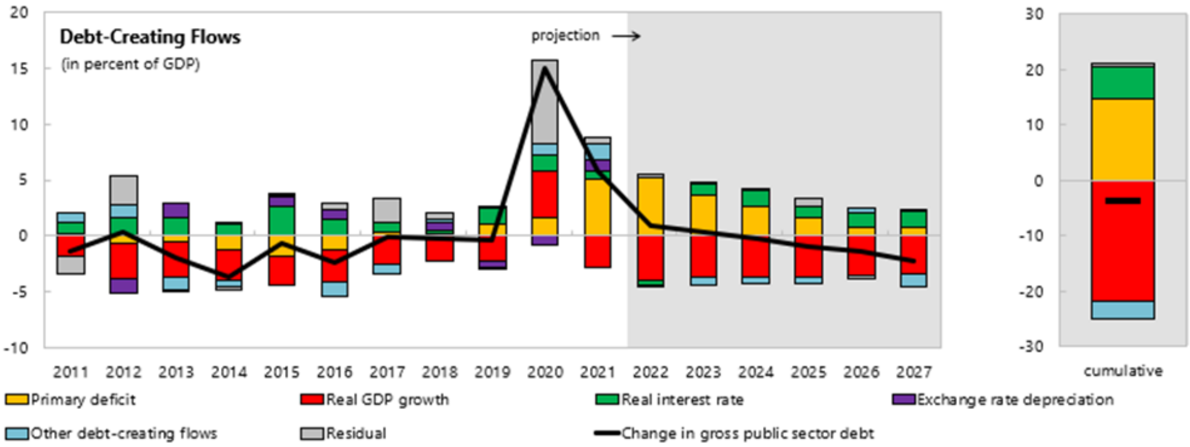
Figure 2. Philippines: Baseline NG Debt Dynamics, 2020-2025



65. **The higher primary deficit 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. The strong economic growth expected to be experienced in the medium term is projected to stabilize and then improve the Debt-to-GDP ratio as the fiscal deficit returns to around pre-pandemic levels starting 2025. Based on the DSA results, a primary deficit of 3.5 percent of GDP or more is needed to stabilize Debt-to-GDP ratio towards a declining path.

Apart from the continued elevated deficit in the medium term, the interest rate normalizations domestically and globally are also expected to contribute to the increase in the Debt-to-GDP ratio. However, the country is still projected to enjoy a favorable interest rate-growth differential needed to stabilize the debt over the medium term. Other debt-creating flows and asset changes are also expected to improve the debt trajectory according to the DSA.

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



Risk Mitigating Measures

Debt Management Strategies

66. The NG actively manages the risks to its financing requirement. Proper cash management and prudent debt management in anticipation of medium-term-term fiscal developments as well as other domestic and global incidents have always ensured a strategic approach to borrowing operations.

67. The continued policy instrument of heavy bias for domestic financing has reoriented national debt to 69.7 percent domestic versus 30.3 percent foreign in 2021, a large improvement from the mix of 64.6 percent domestic to 35.4 percent foreign in 2016, thereby less volatile debt servicing to foreign exchange fluctuations.

68. Meanwhile, the NG maintains its strong international presence by issuing bonds in multiple hard currency markets to supplement its regular and domestic funding exercises. In line with its strategy of diversifying its investors base, the BTr during the Duterte administration successfully returned to the Panda, Samurai, and Euro markets with well-received deals that achieved tight and cost-efficient pricing.

Table 10. Philippines: External Commercial Bond Issuances, 2018-2022

	Issuances	Accomplishment/s
Samurai Bonds	• August 2018: JPY 154.2 billion (3, 5, and 10-year) • August 2019: JPY 92 billion (3, 5, 7, and 10-year) • March 2021: JPY 55 billion (3-year) • April 2022: JPY 70.1 billion (5,7,10, and 20-year ESG bonds)	• In its August 2018 issuance, the ROP returned to the Samurai bond market after 8 years. • In March 2021, the ROP launched the first-ever zero-coupon bond transaction issued in the Samurai bond market. The new 3-year Samurai tranche was priced at 21 bps above the benchmark, the tightest spread the Republic has achieved so far since its return to the market in 2018. • In April 2022, the ROP issued the first-ever ESG Samurai bonds which captured new investors in support of the country's climate change

		initiatives and deepening of the domestic capital market.
Euro Bonds	● May 2019: EUR 750 million (8-year) ● February 2020: EUR 1.2 billion (3- and 9-year) ● April 2021: EUR 2.1 billion (4-, 12-, and 20-year)	● The ROP returned to the European bond market after 13 years in May 2019, raising EUR750 million. ● In February 2020, the ROP had its lowest coupon Euro-denominated issuance and first ever zero-coupon EUR issuance in the international capital markets.
Panda Bonds	● March 2018: RMB 1.46 billion (3-year) ● May 2019: RMB 2.5 billion (3-year)	● In March 2018, the ROP issued its inaugural RMB-denominated bonds or Panda bonds. The Philippines became the first ASEAN member to issue Panda bonds.
Dollar Bonds	● April 2020: USD 2.35 billion (10-year and 25-year) ● June 2021: USD 3 billion (10.5-year and 25-year) ● October 2021: USD 1.6 billion (5-year and 10-year) ● March 2022: USD 2.25 billion (5-year, 10.5-year, and 25-year	● The ROP was the first sovereign globally to price syndicated benchmark tranche with zero new issue premium during the COVID-19 crisis in April 2020. ● In June 2021, ROP issued its largest dual-tranche global bond in history. ● The ROP successfully raised its first-ever retail onshore dollar bonds. ● First sovereign ESG global bond issuance via the 25-year tranche in support of the country's sustainable development and climate change mitigation.

69. **Policy coordination with the BSP has provided liquidity and pricing support for domestic issuances.** The short-term provisional advances extended by the BSP to the NG provides immediate liquidity support in case of sudden surprises in the credit markets. Moreover, this precautionary cash buffer signals to the market that the BTr has the option to reject bids in its primary auction if demanded rates are too high.

Capital Market Development

70. **Strong domestic retail outreach in support of financial literacy and inclusion**. The NG has endeavored to shore-up participation of small savers in the local bond market through the issuance of Retail Treasury Bonds (RTBs), Premyo Bonds, as well as the inaugural issuance of the Retail Onshore Dollar Bonds (RDBs) in 2021. These have been done alongside a financial literacy drive and the development of online selling platforms to support financial inclusion. This has led to increased local retail market participation which has enlarged the share of retail bonds to more than 30% of total government securities from only 19% in 2015.

71. The proposed Corporate Pension Reform envisions a transition from a Defined Benefit Scheme to a Defined Contribution Scheme in order to address current problems such as unfunded or underfunded pension liabilities, lack of portability of retirement accounts, and inadequacy of pension benefits. When passed, the transition to a fully-funded corporate pension system will provide a supply of capital that would develop broad institutional investor bases that can sustain demand for long-term assets and can increase contractual savings to enable the mobilization of a large pool of funds.

V. MONETARY PERFORMANCE

Domestic Liquidity

72. As of April 2022, domestic liquidity (M3) grew by 7.3 percent to about ₱15.3 trillion in April after expanding by 7.7 percent in March 2022. Net foreign assets (NFA) in peso terms increased by 5.2 percent in April from 8.2 percent in March. The slower expansion in the BSP's NFA position reflected the decline in gross international reserves relative to the same period a year ago. Meanwhile, the NFA of banks continued to expand, albeit at a slower pace, on account of higher investments in marketable debt securities as well as loans and receivables with nonresident banks.

73. Likewise, bank lending continued to increase in May 2022. The outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP, expanded at a quicker rate of 10.7 percent year-on-year (YoY) in May after a 10.1-percent increase in the previous month[23]. Bank lending continued to improve as easing COVID-19 restrictions drive the improvement in mobility and market demand.

74. Outstanding loans to residents of U/KBs, net of RRPs, increased by 10.6 percent in May from 10.0 percent in April. Specifically, outstanding loans for production activities went up by 10.8 percent in May from 10.3 percent in April with the rise in loans for real estate activities (16.4 percent); manufacturing (16.0 percent); information and communication (27.1 percent); wholesale and retail trade, repair of motor vehicles and motorcycles (6.2 percent); and construction (12.3 percent)

Similarly, growth in consumer loans to residents accelerated to 8.5 percent in May from 6.7 percent in April with the YoY increase in credit card loans and salary-based general purpose consumption loans. Meanwhile, outstanding loans to non-residents[24] expanded at a slower rate of 12.5 percent in May from 13.5 percent (revised) in the previous month.

Monetary Policy Assessment

75. In 2021, the BSP held eight monetary policy meetings and decided to maintain the reverse repurchase (RRP) rate at 2.0 percent. The corresponding interest rates on the overnight lending and deposit facilities were also kept steady at 2.5 percent and 1.5 percent, respectively. The reserve requirement ratios were likewise left unchanged. The policy decisions of the Monetary Board were based on the assessment that preserving ongoing monetary policy support shall help sustain the economy's momentum amid manageable inflation outlook.

76. Citing the need to safeguard the momentum of economic recovery amid increased uncertainty in the growth outlook, the BSP likewise kept monetary policy settings unchanged at its first two policy meetings for 2022 on 17 February and 24 March. Nonetheless, it began to flag the potential broadening of price pressures over the near term and signaled its readiness to deliver timely and appropriate monetary action to arrest

[23] Preliminary

[24] Outstanding loans to non-residents include loans by UKB's foreign currency deposit units (FCDUs) to non-residents.

potential second-round effects, even as it continued to develop its plans for the gradual withdrawal of pandemic-related liquidity measures.

77. **On 23 May 2022, the BSP raised the policy interest rate by 25 basis points (bps) to arrest further second-round effects and temper the buildup in inflation expectations amid elevated and persistent inflation pressures.** The policy rate hike came as a strong rebound in domestic economic activity and labor market conditions in Q1 2022 provided scope for the BSP to continue rolling back its pandemic-induced interventions, consistent with its broad exit strategy from monetary accommodation.

78. **The BSP decided to raise the policy interest rate anew by 25 bps to 2.5 percent at the Monetary Board meeting on 23 June 2022.** Latest baseline forecasts have shifted higher from the previous policy meeting as upside risks continue to dominate the inflation outlook up to 2023. At the same time, inflation expectations have continued to rise. While they remain within the target range for 2023-2024, elevated expectations highlight the risk of further second-round effects arising from sustained price pressures.

    A follow-through rate hike enables the BSP to withdraw its stimulus measures while safeguarding macroeconomic stability amid rising global commodity prices and strong external headwinds to domestic economic growth. At the same time, the BSP reiterates its support for the carefully coordinated efforts of other government agencies as part of a whole-of-government approach in implementing non-monetary interventions to mitigate the impact of persistent supply-side factors on inflation.

    In line with the ongoing normalization of its monetary policy settings, the BSP is prepared to take all necessary policy action to bring inflation toward a target-consistent path over the medium term and deliver on its primary mandate of price stability.

VI. EXTERNAL PERFORMANCE

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

80. The current account (CA) recorded a deficit of US$6.9 billion (equivalent to -1.8 percent of GDP) in 2021, a reversal of the US$11.6 billion surplus (equivalent to 3.2 percent of GDP) registered in 2020. The reversal of the CA surplus to a deficit resulted from the widening of the trade-in-goods gap as imports accelerated faster than exports. The notable expansion in goods trade reflects the continued recovery in both the global and domestic economies. The higher trade deficit was partly tempered, however, by the expansion in net receipts of the secondary income and trade in services accounts.

81. For the first quarter of 2022, the current account registered a deficit of US$4.8 billion (equivalent to -5.0 percent of the country's GDP), which is significantly higher than the US$32 million deficit recorded in the same quarter in 2021. Trade in goods posted a wider deficit of US$16.4 billion in Q1 2022, 49.1 percent higher than the US$11 billion deficit recorded in Q1 2021, as imports grew at a faster rate than exports during the period. The increase in the trade deficit was partly muted by the higher net receipts in the primary income and secondary income accounts.

82. Based on preliminary data as of end-May 2022, the country's gross international reserves (GIR) level stood at US$103.53 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 9.1 months' worth of imports of goods and payments of services and primary income. It is about 6.6 times the country's short-term external debt based on original maturity and 4.5 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.

83. Prudent level of external debt also indicates the country's sustained strong external payments position. The country's external debt-to-GDP ratio remained manageable at 27.5 percent as of end-March 2022, one of the lowest compared to other ASEAN member countries. In addition, the country's external debt remains largely in the medium-to-long term maturity profile, indicating sustained strong position to service its foreign obligations in the medium to long term.

VII. FINANCIAL SECTOR

84. **The banking sector remains sound and resilient. It has a strong financial condition, has manageable NG exposure[25], and has adequate capital and liquidity buffers.** The Philippine banking system's total resources continued to expand at 6.7 percent year-on-year (YoY) to ₱20.7 trillion as of end-April 2022 to support the country's financing needs. Asset growth was sourced mainly from deposits and channeled to lending and investment activities. The banking system is profitable with satisfactory asset quality, sufficient liquidity, and adequate capitalization to absorb potential shocks.

85. **Banks were optimistic based on the latest Banking Sector Outlook Survey.** The outlook on the Philippine banking system was relatively stable with prospects of double-digit growth in assets, loans, investments, and deposits in the next two years from 2022 to 2023. This is in line with the banks' expectations that GDP growth will range between 5.0 percent and 6.0 percent within the two-year horizon.

    Credit outlook remains positive with double-digit growth. Majority of respondent banks projected growth between 10 and 15 percent in their respective loan portfolios over the next two years. Amid weakening of loan quality due to subdued economy, respondent banks continue to expect their non-performing loans (NPLs) to remain within manageable level, accompanied by high provisions. Majority of the respondent banks expect their NPL ratio to settle between 5 and 6 percent while more banks intend to report higher NPL coverage ratio of more than 50.0 percent to 100.0 percent.
    Meanwhile, banks expected tighter net interest margin (NIM) of between 3 and 5 percent over the next two years. Banks intend to maintain their capital adequacy ratios (CARs), leverage ratio and liquidity ratios at levels higher than the BSP and international standards to promote institutional stability.

The Banking System

86. **Asset expansion was attributed to continued pick up of lending activities supported by stable, retail deposits.** The banking system's total resources expanded by 6.7 percent YoY to ₱20.7 trillion as of end-April 2022.

    Loans[26] held the largest share of the banking system's total assets at 53.1 percent (₱11.0 trillion, higher by 7.0 percent YoY), followed by investments in securities at 28.0 percent share (₱5.8 trillion, higher by 23.5 percent YoY) and cash and due from banks at 13.7 percent (₱2.8 trillion, lower by 17.1 percent YoY).

    YoY asset growth was funded mainly by deposit generation. Total deposits grew by 7.2 percent YoY to ₱16.1 trillion and remained the primary funding source representing 77.9 percent of the total resources of the banking system. The deposits were mostly peso-denominated and sourced from resident individuals and private corporations. Savings deposits had the biggest share of total deposits at 48.8 percent.

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[25] In terms of banks' investment in government securities and acceptance of government deposits and government guarantees.
[26] Include Interbank Loans Receivables (IBLO and Reverse Repurchase (RRP). Net of allowance for credit losses.

The balanced distribution of the banking system's assets and stable funding source allow banks to effectively manage their risk exposures amid market uncertainties and volatilities.

87. **Banks credit remained broad-based and diversified across productive sectors of the economy.** By economic activity, the real estate sector was the main loan recipient at 19.5 percent as of end-April 2022. This was followed by wholesale and retail trade (10.9 percent, ₱1.2 trillion), manufacturing (9.9 percent, ₱1,123.8 billion), and electricity, gas, steam, and air-conditioning supply (9.4 percent, ₱1,070.0 billion). Banks' credit risk exposures were diversified across key economic sectors and accompanied by continued improvement in their respective credit risk management systems and practices.

88. Overall, a declining trend has been observed in both mean and median weighted average interest rates (WAIR) since the start of the pandemic. Lending rates, however, have started to inch up in 2022 compared to levels reported in 2021. The overall mean weighted average interest rates (WAIR) on loans of universal and commercial banks (U/KBs) stood at 6.4 percent as of end-March 2022, lower than the 8.2 percent as of end-March 2020 (start of quarantine period) but higher than the 5.5 percent in March 2021. The overall median WAIR registered at 5.2 percent as of end-March 2022, lower than the 5.8 percent as of end-March 2020 but higher than the -5.0 percent as of end-March 2021. A declining trend was observed in both mean and median WAIR of agrarian reform and other agricultural loans. Meanwhile, the mean WAIR of loans to government declined to 6.8 percent as of end-March 2022 from 7.9 percent as of end-March 2020 but remained higher than the 6.2 percent as of end-March 2021. The median WAIR of loan to government inched up to 5.3 percent as of end-March 2022, relatively higher than the 4.3 percent as of end-March 2020 and the 3.7 percent as of end-March 2021.

To ensure continuous support to banking operations and key economic sectors including micro, small and medium enterprises (MSMEs), most of the BSP's relief measures will remain in place until end-December 2022. In line with this, the BSP allowed banks to use loans to MSMEs and large enterprises (LEs) that are not affiliated with conglomerates as alternative compliance with the reserve requirements against deposit liabilities and deposit substitutes. The results revealed that the adjustments in the BSP policy rate and bank reserve requirements as well as the regulatory relief measures adopted by the NG and the BSP to promote financing to MSMEs are gaining some traction. Average bank lending rate (median WAIR) for loans to micro-enterprises and SMEs showed a noticeable drop this period by 0.5 percentage points to 7.9 percent and 0.1 percentage point to 6.3 percent, respectively, compared to the onset of the crisis in March 2020.

89. **Loan quality remained satisfactory.** The quality of the banking system's loan portfolio was manageable. Gross NPL ratio eased at 3.9 percent as of end-April 2022, relatively lower than the 4.4 percent as of end-April 2021 and the 4.1 percent in March 2022. Early recognition of provision for credit losses in 2020 resulted in the high NPL coverage ratio which stood at 90.6 percent as of end-April 2022. The level of gross restructured loans of banks grew by 40.7 percent YoY to ₱340.5 billion. This was equivalent to 3.0 percent of the total loan portfolio of the banking system, up from 2.3 percent ratio recorded the same period a year ago.

90. Stable peso deposits from residents largely funded asset expansion. The banking system's deposits posted a 7.2 percent YoY growth to ₱16.1 trillion as of end-April 2022. These deposits were mostly peso-denominated and sourced from resident individuals and private corporations. Savings deposits had the biggest share of total deposits at 48.8 percent share (₱7.9 trillion), followed by demand and NOW accounts at 30.3 percent share (₱4.9 trillion) and time certificates of deposit at 19.7 percent share (₱3.2 trillion).

91. Banks remained well-capitalized to support economic growth. Total capital accounts grew by 2.4 percent YoY to ₱2.5 trillion as of end-April 2022 due mainly to increase in capital stock and premium on the said sale/issuance to fund bank's growth plans.

Meanwhile, the CAR of the U/KB industry remained well-above the minimum thresholds set by the BSP at 10 percent and the Bank for International Settlements at 8 percent.

As of end-March 2022, the CARs of the U/KB industry registered at 16.2 percent and 16.8 percent on solo and consolidated bases, respectively, as compared to the previous year's 16.8 percent and 17.4 percent. Banks' risk-taking activities are supported by adequate capital which is mainly composed of common equity and retained earnings. As of end-March 2022, the common equity tier 1 (CET1) ratio of the U/KB industry was 15.1 percent and 15.7 percent on solo and consolidated bases, respectively, as compared to the previous year's 15.6 percent and 16.2 percent.

These U/KBs also posted a leverage ratio of 9.2 percent on a solo basis and 9.7 percent on a consolidated basis as of end-March 2022, well-above the BSP and international thresholds of 5.0 percent and 3.0 percent, respectively. The recorded leverage ratio of U/KBs indicates the overall industry strength in terms of its ability to absorb unforeseen business losses, while allowing a buffer for further expansion.

92. Banking system maintained sufficient buffers to meet liquidity and funding requirements. The U/KB industry's liquidity coverage ratio (LCR) of 200.3 percent on solo basis as of end-February 2022 remained well-above the 100 percent minimum threshold and relatively higher than the 198.6 percent on a solo basis last year.

As of end-February 2022, the U/KB industry's net stable funding ratio (NSFR) stood at 143.5 percent on solo basis, well-above the BSP regulatory threshold of 100 percent. The relatively high liquidity ratios indicate banks' ability to meet short- and medium-term funding requirements. Meanwhile, the liquidity ratios of stand-alone thrift banks (TBs), rural banks (RBs) and cooperative banks (CBs) surpassed the regulatory minimum liquidity ratio (MLR) of 20 percent[27]. Based on preliminary data as of end-February 2022, the MLRs of stand-alone TBs, RBs and CBs stood at 37.1 percent, 64.1 percent, and 40.6 percent, respectively.

93. Banking system sustained profitability amid the pandemic. The net profit of the banking system went up by 26.3 percent YoY to ₱66.3 billion for the period-ended March 2022, a reversal from the 5.7 percent YoY contraction for the same period last year. The return on assets (RoA) for the same period registered at 1.2 percent, higher than the 0.8

[27] As a relief measure, the BSP reduced the MLR from 20 percent to 16 percent until end-December 2022.

percent ratio posted a year ago. The return on equity (RoE) inched up to 9.6 percent from the previous year's 6.4 percent.

Risks from the Banking Sector

94. **Asset quality of the banking system remains manageable.** Alongside improving economic conditions and easing mobility restrictions, loan quality continued to recover. Early recognition of allowance for credit losses in 2020 provided additional cushion to banks. Importantly, banks have employed credit risk mitigants in the form of collaterals or guarantees to lower credit risk exposure. . Going forward, the BSP expects banks to continue to be prudent in their loan loss provisioning practices.

    The NPL level and ratio of the banking system remained low due largely to the adoption of sound credit risk management even before the COVID-19 pandemic. In addition, the enactment and full operationalization of the Financial Institutions Strategic Transfer (FIST) Act will help keep the level of non-performing assets (NPAs) low. The full operationalization of the FIST Act is also expected to increase the system's risk-bearing capacity and ability to expand investment and lending activities by freeing-up banks' capital. In order to encourage banks to avail of the incentives under the FIST Act, the BSP provides BSP-supervised financial institutions (BSFIs) with the option to defer the recognition of losses arising from the sale/transfer of NPAs under the FIST Act up to a maximum period of five (5) years from the date of sale/transfer of the NPAs, subject to prior BSP approval and disclosure requirements.

    Notwithstanding these initiatives and the ample capital buffer of the banking system, closer monitoring of the bank's asset quality is warranted amid heightened credit risk due to the ongoing COVID-19 crisis.

    As of 24 March 2022, the Securities and Exchange Commission has approved the establishment of six (6) FIST corporations[28]. These include three (3) Philippine companies and three (3) foreign-owned companies.

95. **Exposures of the NG to the banking sector were mainly in the form of government deposits.** The Philippine Government maintained deposit placements in the banking system amounting to ₱2.1 trillion as of end-April 2022. This exposure accounted for 13.2 percent of the ₱16.1 trillion total deposit liabilities of the banking system.

96. **Banks' investment in government securities comprised 69.9 percent (₱4.2 trillion) of the system's total investment portfolio of ₱6.0 trillion and 20.3 percent of banks' total assets as of end-April 2022.** These were made up of treasury bills (₱158.3 billion, 3.8 percent share), treasury bonds (₱1.9 trillion, 46.0 percent share) and others[29] (₱2.1 trillion, 50.2 percent share).

    The banking system's total holdings of foreign currency denominated Republic of the Philippines (ROP) bonds amounted to US$9.6 billion as of end March 2022 and

[28] Source: Department of Finance https://www.dof.gov.ph/5-fist-corporations-set-up-since-laws-enactment-in-q1/

[29] This refers to securities issued by the NG (e.g., retail treasury bonds) which do not fall under treasury bills and treasury bonds.

represented around 32.9 percent of the banking system's portfolio investment in foreign currency denominated debt securities.

Given the substantial investment of banks in government securities, careful monitoring of these exposures is deemed necessary.

Risk Mitigation Measures

97. **The prudential and strategic reforms undertaken by the BSP over the years together with the swift, time-bound, and targeted relief measures allowed the financial system to weather the COVID-19 pandemic from a position of strength.**

Recognizing the need to sustain credit growth in the country, the BSP has extended the effectiveness of some of the prudential and operational relief measures until the end of 2022. These include the extension of the: (a) temporary increase in the Single Borrowers Limit (SBL) to 30 percent from 25 percent; (b) temporary reduction of credit risk weights for loans granted to MSMEs that are current in status to 50 percent from 75 percent for qualified MSME portfolio (i.e., diversified with at least 500 borrowers over a number of industries), and from 100 percent for non-qualified MSME portfolio; (c) utilization of MSME loans and eligible loans to large enterprises as alternative compliance with the reserve requirement; and (d) reduction of minimum liquidity ratio of stand-alone banks (i.e., TBs, RBs and CBs) to 16 percent from 20 percent. The relaxation of the SBL also covers the increase in the 25 percent SBL for project finance loans of initiatives that are in line with the priority programs of the Government.

98. **Parallel to this, the BSP continued to promote the overall safety, soundness, and stability of the financial system through continued reforms in the corporate governance and risk management of supervised financial institutions consistent with relevant laws and international standards. The BSP leveraged on advances in technology to strengthen surveillance activities and sharpen supervisory tools. Similarly, the BSP facilitated the increased participation of BSFIs in the financial system, promoted responsible innovation and the sustainability agenda, and supported deepening of the domestic capital market.**

<u>Corporate Governance and Risk Management Guidelines</u>

Guidelines on Reputational Risk Management. The issuance sets out the supervisory expectations on banks to effectively manage reputation risk. Banks should take a holistic approach in managing reputation risk in relation to other risk areas. Moreover, banks should properly identify and assess sources of potential threats that could damage their reputation.

Amendments on Regulations on Outsourcing and Information Technology Risk Management. The amendments require BSFIs to adopt robust fraud management systems. The guidelines also mandate the integration of consumer education as part of the digital onboarding process for electronic payments and financial services (EPFS) applications. This is to strengthen the cybersecurity posture of BSFIs and minimize losses arising from fraud and cybercriminal activities. BSFIs are also required to assess whether an outsourcing arrangement is material to their business to ensure that outsourcing risks, both on a contract-specific level and on an institution-wide level, are managed vis-a-vis the impact to the overall operations.

Amendments to Operational Risk Management and Internal Control Measures. The guidelines aim to strengthen Know-Your-Employee (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 revised policy also identified certain behaviors that serve as red flags warranting further scrutiny as part of personnel's performance evaluation.

Amendments to Corporate Governance Guidelines for BSP-supervised financial institutions. The amendments comprise the second phase of the enhancements to BSP's enhanced corporate governance guidelines. The amendments governing interlocking directorships or officerships, or both, follow a principles-based approach in assessing the soundness of interlocking positions, ensuring that the concerned individuals effectively carry out their responsibilities in the BSFI and are not in conflicting positions.

Guidelines on the Management of Liquidity Risk by Islamic banks and Islamic banking units. The policy aims to support the implementation of Republic Act No. 11439 or An Act Providing for the Regulation and Organization of Islamic Banks. It is primarily aligned with the BSP's existing liquidity risk management framework for conventional banks, with additional provision to cover the specificities of Islamic banking operations. It aims 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 and transactions.

Guidelines for Reporting Islamic Banking and Finance Transactions/Arrangements. The BSP issued general guidelines on the prudential reporting of Islamic Banking and finance transactions. Moreover, Islamic Banks and conventional banks with Islamic Banking Units shall submit prudential reports to the BSP using the existing templates of the Financial Reporting Package (FRP).

Amendments to the Rules and Regulations on the Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit. The amendments facilitate the provision of available financing to the agri-agra sector by providing banks with expanded financing avenues, streamlining banks' process of investing in agri-agra eligible securities, and promoting innovative financing solutions that fall within the ambit of Republic Act No. 10000.

Implementation of Republic Act No. 11523, otherwise known as the Financial Institutions Strategic Transfer (FIST) Act. The FIST Act aims to assist the financial system perform its role of efficiently mobilizing savings and investments for the country's economic recovery as well as its sustained growth and development from the losses brought about by the COVID-19 pandemic. The BSP issued the corresponding guidelines of the FIST Act and its Implementing Rules and Regulations to its supervised financial institutions.

Responsible Innovation

Guidelines for Virtual Asset Service Providers (VASPs). The amended framework effectively categorizes existing virtual currency exchanges as VASPs. It has expanded the activities of VASPs subject to the licensing regime of the BSP from initially covering those involved in facilitating the exchange of fiat and virtual assets (VAs). In particular, the following activities shall be subject to the BSP's licensing requirements, regulatory expectations for money service businesses (MSBs), as well as anti-money laundering, countering the financing of terrorism, and proliferation financing obligations: (1) exchange between one or more forms of VAs; (2) transfer of VAs; and (3) safekeeping and/or administration of VAs or instruments enabling control over VAs.

Open Finance Framework. The Open Finance Framework promotes consent-driven data portability, interoperability, and collaborative partnerships among entities who adhere to the same standards of data security and privacy. Filipinos will be able to make informed financial choices by having a consolidated view of their personal data and their financial transactions that they can use to access more affordable services that fit their needs. Consumers will have the power to grant access to their financial data that will shape a customer-centric product development objective.

Sustainability Agenda

Environmental and Social Risk Management Framework. This governs the integration of environmental and social (E&S) risks in the enterprise-wide risk management frameworks of banks. This second phase of environment, social and governance related issuance provides granular expectations on the management of environmental and social risks in relation to credit and operational risks.

Capital and Foreign Exchange Markets

Amendments to the Regulations on Investment Management Activities. The regulation reduces the minimum amount for opening an investment management account from ₱1 million to any lower amount, subject to a floor of ₱100,000. This provides expanded investment opportunities to retail investors who may have found the previous high entry requirement prohibitive.

Amendments to Regulations on the Open Foreign Exchange Position of Banks. The issuance revised the net open FX position limit (FX NOP) of a bank to the lower of 25.0 percent of qualifying capital or US$150 million, from the previous limit of 20.0 percent of unimpaired capital or US$50 million, whichever is lower. The increase in both the absolute and capital-dependent NOP limits recognizes the growing demand for FX arising from the growth in the volume of underlying trade transactions and investments.

Amendments to the Relevant Regulations on Foreign Currency Deposit System - Phase 2. This is part of the BSP's phased reform agenda for foreign currency deposit units (FCDUs). The amendments provide banks the opportunity to perform efficient and flexible liquidity cash management of foreign currency-denominated funds by streamlining the rules on lending to the regular banking unit by FCDUs. The issuance also expands the coverage of entities allowed to engage in FCDUs to include Islamic and digital banks and streamlines the licensing requirements for banks applying for such authority.

Amendments to Derivatives Regulations of Banks, Quasi-Banks, and Trust Corporations. The revised regulations removed tenor limits on instruments classified as generally authorized derivatives activities (GADA) and add non-deliverable foreign exchange (FX) forwards and FX swaps to the list of GADA under dealer capacity for universal and commercial banks. This issuance supports the growth of and expedites the availability of new products in the domestic derivatives market.

99. Moving forward, the BSP will remain committed in pursuing proactive, timely and calibrated policy responses, reforms, and supervisory initiatives. These together with banks' prudent risk-taking behavior and adequate buffers against lingering uncertainties and external shocks will sustain a more inclusive, dynamic, and stable banking system.

VIII. OTHER CONTINGENT CENTRAL GOVERNMENT OBLIGATIONS

A. GOVERNMENT OWNED AND CONTROLLED CORPORATIONS (GOCCs)

Social Security Institutions (SSIs)

100. The total assets of the Government Service Insurance System (GSIS) as of 31 December 2021 is valued at ₱1,530,029,894,673 with a net income from operations amounting to ₱129,673,458,759. The GSIS posted a negative surplus in 2021 at (₱663,768,758,046).[30]

Table 11. Philippines: GSIS Cash Surplus (Deficit) in IMF Format FY 2019-2021
(In Million Pesos)

	2019		2020		2021	
	FULL YEAR		FULL YEAR		FULL YEAR	
Revenues	**92,962**	**201,831**	**102,678**	**211,786**	**105,118**	**244,444**
Members Contributions (S-1)		131,352		149,175		155,400
of which Contributions (S-1A)	69,854		79,935		82,677	
Investment Income and Other Earnings (S-2)		70,479		62,611		89,044
of which from Holding of National Government Securities (S-2A)	23,108		22,743		22,441	
Expenditures		**190,489**		**182,189**		**166,939**
Benefits (S-3)		122,315		122,978		148,290
Operating and other Expenses (S-4)		11,267		12,611		10,329
Policy Lending to Public and Private Sector (S-5)		56,907		46,600		8,320
Surplus (+)/Deficit (-)		**11,342**		**29,596**		**75,505**

**2019 Full Year Audited Cash Surplus (Deficit)*
2020 Full Year Audited Cash Surplus (Deficit)
2021 Full Year Un-audited Cash Surplus (Deficit)

101. GSIS, by virtue of Republic Act No. 656, as amended by Presidential Decree No. 245, is mandated to insure all properties and assets in which the government has insurable interest. For the period January 1, 2021 to December 31, 2021, the Total Sum Insured (TSI) across all lines of GSIS is at ₱2,303,541,920,693.82.

Pandemic Response

102. Financial **Assistance to Employee Compensation (EC) Pensioners**. President Rodrigo Duterte issued Administrative Order (AO) No. 39 in April 2021 granting a one-time financial assistance to EC pensioners to alleviate their plight during the pandemic. As of December 2021, there were 7,210 EC pensioners who received a ₱20,000 financial assistance each for a total of ₱144.2 million.

103. **GSIS Ginhawa for All Computer Loan (GFAL CL)**. In October 2020, GSIS launched GFAL CL to provide a ₱30,000- loan assistance to GSIS members for the purchase of a computer unit for their online work or virtual classes of their dependents. As of December 2021, a total of 300,299 members availed of the loan that entailed a total disbursement of ₱9.01 billion.

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[30] As submitted to COA on 14 Feb 2022. Effective 2020, GSIS implemented PFRS4. Insurance Contract Liabilities/ Reserve is under liabilities.

104. Digital Acceptance of Direct Payments. GSIS accepted payments for loans through the Bayad Center (the biggest and multi-channeled payment platform in the Philippines) in April 2021. This payment channel is in addition to the regular agency remittance and over-the-counter payment in any GSIS branch office. As of December 2021, GSIS has collected payments amounting to ₱72.10 million. The digital acceptance of direct payments through mobile phones/computers through the Union Bank of the Philippines (UBP) and Land Bank of the Philippines (LBP) online platform was likewise implemented in December 2021.

105. GSIS Touch. The GSIS Touch mobile application is one of the main programs of GSIS in adapting to the new normal. This mobile application offers a more convenient and contactless way to access GSIS programs and services. With GSIS Touch, active members can view their membership and service records and apply for loans and claims online. They can even obtain tentative computation of the proceeds before applying for loans and claims. Monthly, the GSIS Touch sends notification to active members each time their premium and loan repayments are posted. It also sends notification on underpayment of premiums and loans as of the previous month. Pensioners, on the other hand, can likewise view their pension and loan records and schedule their APIR via the app.

106. Bayanihan Fund for Frontliners (BFF). From 2020 to 2021, the GSIS insurance program, Bayanihan Fund for Frontliners (BFF) provided an additional benefit of P500,000 given to family members of government frontline workers who succumbed to COVID-19. This insurance cover is on top of the regular life insurance benefit (equivalent to 150% of member's annual salary) that the beneficiaries or legal heirs are also entitled to receive. Qualified to receive this benefit are families of all government frontliners who are providing assistance to COVID-19 patients at DOH; treatment and rehabilitation centers; and medical centers and hospitals, including those administered by local government units and state universities and colleges. They include medical technologists and technicians, janitors, security guards, ambulance drivers, administrative assistants, and other healthcare workers whose job involves regular exposure to COVID-positive patients.

107. Since 2020, GSIS has released a total of ₱15 million in BFF cash benefits to the families of 30 health professionals who died in the line of service.

108. 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 Center program.

Since 2020, GSIS granted 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. From 2020-2021, GSIS released a total of ₱13.5 million, benefitting a total of 27 centers nationwide.

Risk Position on Pending Bills

109. Pension Reform for Military and Uniformed (MUP) Personnel. GSIS remains steadfast in its position that there should be no "co-mingling" of funds, and that any pension fund to be established for military and uniformed personnel (MUP) should be a separate and independent entity or government agency distinct from the existing GSIS Social Insurance Fund (SIF) for civilian employees in government. GSIS should not be held accountable for the financial sustainability or actuarial risk and administration of the benefits and pension scheme of the MUP.

GSIS is willing to take the role of an external manager of financial assets of other entities. If the final proposal and recommendation by the bill proponents and the MUP Trust Fund Committee is for GSIS to be the fund manager and benefit administrator, GSIS proposes that the entire pension system (without any exception), including the administration of MUP benefits and management of the trust fund, should be under GSIS. There should also be sovereign guarantee.

110. **Lowering of Optional Retirement Age from 60 to either 55, 56, 57, 58 or 59.** The GSIS has expressed its reservations on the various proposals lowering the optional retirement age as the same would have a negative impact on the actuarial life of the Social Insurance Fund (SIF) of 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 liabilities for the increased costs.

Table 12. Summary of Results on Lowering the Optional Retirement Age
2020 SIF Assessment Based on 2019 Year-End Data
Interest Rate = 7%
Amount in Billions

Scenario	Retirement Age		Fund Life	Contingent Liability	Increase in Contingent Liability from Base Case
	Optional	Compulsory			
Base Case	**60**	**65**	**June 2044**	**3,218.12**	
Scenario 1	59	65	June 2043	3,348.95	130.83
Scenario 2	58	65	January 2043	3,409.25	191.13
Scenario 3	57	65	September 2042	3,448.02	229.90
Scenario 4	56	65	May 2042	3,493.70	275.58
Scenario 5	55	65	December 2041	3,532.51	314.39

Based on the current benefit package and a yield rate assumption of 7%, the SIF fund life is until 2044. This means that the fund has about 22 years to go before its funds are depleted. At time of depletion, available funds will not be enough to pay for 100% of the benefits as scheduled.

The 21% contribution rate rests on the current optional and compulsory retirement ages of 60 and 65, respectively. Lowering the retirement age, or any increase in monetary benefit, 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 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.

Table 13. Philippines: GSIS Support Ratio
Actual: 2015 – 2019

Projected: 2020 - 2024r	Base Case	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
2015	**5.34**					
2016	**5.30**					
2017	**5.27**					
2018	**5.18**					
2019	**5.28**					
2020	4.46	4.30	4.24	4.19	4.13	4.08
2021	4.24	4.07	4.02	3.98	3.93	3.89
2022	4.01	3.86	3.81	3.78	3.75	3.71
2023	3.82	3.69	3.65	3.62	3.58	3.55
2024	3.64	3.53	3.49	3.47	3.43	3.40

Consequently, with the lowering of the retirement age, the number of active contributors (paying members) supporting a pensioner or the support ratio would further decline as shown in Table 3. This ratio is already declining brought about by the rise in the number of pensioners. It must be noted that the number of active members in the government service who are paying contributions is already fairly stationary. A decreasing support ratio may lead to sustainability and viability issues in the long term.

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

Painful but necessary reforms that adjust the parameters of pension systems such as (i) increase in retirement age; (ii) increase in contribution rate; and (iii) decrease in benefits – are some reforms to promote sustainability.

111. **Granting Additional Benefits to Barangay Health Workers.** The proposed bill seeks to provide insurance coverage to Barangay Health Workers (BHW). The Insurance Coverage Section/Provision states that accredited BHWs will be granted insurance coverage and benefits from GSIS which shall be borne by the local government unit (LGU) concerned: Provided, that the national government will subsidize (50%) of the contributions of fourth, fifth and sixth class municipalities. GSIS also suggests that the LGU shoulder 100% of the premium plus taxes for the GSIS Group Personal Accident Insurance (GPAI) policy of named BHW for first, second, and third class municipalities.

With regard to the premium subsidy for fourth, fifth and sixth class municipalities, GSIS proposes that an extensive study be conducted to check the effect of subsidy to the actuarial solvency of the GSIS General Insurance Fund considering the scope of cover or exposure of BHWs nationwide.

112. **Proposed Magna Cart of Benefits for the Officers and Personnel of the Philippine Drug Enforcement Agency (PDEA).** The proposed bill provides the optional retirement at age 55 for officers and personnel of PDEA provided they have rendered at least 15 years

of service. It also provides for the receipt of all retirement benefits by surviving legitimate spouse and dependents; and additional payment of hazard pay.

GSIS maintains 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 old with at least 15 years of service with paid premiums. GSIS would like to harmonize the retirement age of PDEA agents with other government employees under GSIS. A lower retirement age for PDEA agents will have a negative effect on the actuarial life 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.

113. **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 term. In this way, elective officials who have completed their three (3) terms can complete the minimum fifteen (15) years length of service and become eligible to receive pension benefits.

R.A. No. 8291 provides social security benefits for workers in the government. Under the law, a defined amount of contributions are set aside as savings for the future benefit of government workers.

Moreover, on the presumption that both the employee and government contributions shall be voluntarily contributed, this proposal supports the inclusion of a select group of non-government workers to continue their membership through voluntary premium contributions until the minimum 15-year service requirement is met. Said proposal differentiates benefits to a select group which we believe is not in accordance with R.A. No. 8291. The said law provides strict coverage for government workers with life insurance, retirement and all other social security protection. The law clearly supports impartiality for all government workers in the application of these provisions and therefore we find the proposed bill in disharmony with R.A. No. 8291.

114. **Foreign Affairs Retirement and Disability Benefits.** The proposed legislative measure aims to adjust the monthly pension and disability benefits of retirees of the Department of Foreign Affairs (DFA), who served in the Department for at least 15 years and are eligible to receive a monthly pension from GSIS.

Particularly, the bills propose the adjustment/indexation of monthly pension at the same as any future or subsequent increase in the salary grade of the last position held by the retiree and its retroactive application. 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. This proposed indexation of the pension to the current salary of incumbents already caused too much burden on the coffers of the government as can be seen from the military and uniformed personnel’s retirement scheme.

This proposal may be seen as favoring their class over other public servants. It is worth mentioning that laws must not violate the equal protection clause nor discriminate them.

There is no reasonable basis for the classification under this proposal. The distinction only serves to grant them more privileges than others in government service and may be disapproved for being unconstitutional.

115. Voluntary Contributions of Members. The proposed bill provides members who leave the service after rendering at least three (3) years of service, the option to continue paying the member and employer monthly contributions including life insurance premiums.

The GSIS protects public servants by insuring them against the occurrence of certain contingencies in exchange for their monthly premium contributions. Thus, it is envisioned to protect those who are **actually rendering public service** and not merely based on their contributions. Such concerns have already been addressed by the Portability Law (R.A. No. 7699) where separated or resigned public servants who do not meet the required number of years provided under Presidential Decree No. 1146 and R.A. No. 8291 may still avail themselves of retirement and other benefits.

The inclusion of non-government workers who may be working in the private sector and are members of Social Security System (SSS) would only allow such workers to avail of the defined benefit scheme for government workers with no corresponding years of government service.

RA 8291 defines pension benefits as a function of years of service in the government and incentivizes civil servants to lengthen their years of service. The defined benefit scheme of the GSIS is meant to be a remuneration for government workers who have rendered a certain number of years of service.

The proposed bill runs contrary to the intention of R.A. No. 8291, which is to provide benefits (membership to the GSIS is a benefit) to government workers proportionate to their years of government service. Therefore, we do not advocate the inclusion of voluntary contributions from such members as proposed in the bill.

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

116. In the analysis of 48[31] PPP contracts (See Annex A for the list of projects) done by the PPP Center, government liabilities may arise from firm liabilities, contingent liabilities, and equity contributions of the implementing agencies (IAs). Under the 2022 Build-Operate-Transfer (BOT) Law Implementing Rules and Regulations (IRR), firm liabilities are foreseeable and definite liabilities, as described in the provisions of a contract. These include, but are not limited to, milestone payments, amortization payments, availability payments, viability gap funding, variation payments, and payment for settlement of undisputed claims. On the other hand, contingent liabilities are liabilities that may be incurred from events specified in a contract, the occurrence, timing, or amount of which are uncertain. These include, but are not limited to material adverse government action (MAGA), force majeure, breach of government warranties, and failure to deliver contractual obligations.

[31] As of March 31, 2022, there are a total of 190 awarded PPP projects. 48 out of 190 projects are ongoing and implemented by national agencies, signed from 2008-2020.

117. The PPP Center reached the following findings after analyzing project information which cover liabilities starting from the issuance of notices of award up to project conclusion, and which are based on documents available to the PPP Center as of March 31, 2022. Hence, the actual liabilities could be higher:

a. Based on available data, the 48 PPP contracts have a combined project cost of ₱1.92 trillion.

b. Based on available data, the total firm liabilities of the IAs to project proponents that appear in 38 out of 48 contracts amount to at least ₱499.36 billion over the life of the contracts. Of this amount, at least ₱263.48 billion has been confirmed paid.

c. One source of government liabilities is payment from an IA due to the occurrence of an uncertain event specified in the contract. Should such an uncertain event happen, the concerned project proponent may file a notice of occurrence. A notice of occurrence describes the nature of the risk event and the measures the party undertakes to mitigate the occurrence and/or effects of the risk event. If the risk event continues and affects the profit position of the project proponent, the project proponent may file a claim for compensation, which the IA then evaluates. If, after evaluation, the IA agrees with the claim for compensation, the IA pays the project proponent. Otherwise, the IA may discuss amicably and negotiate with the project proponent regarding measures on how to compensate the latter. If the claim cannot be resolved, the parties may initiate the dispute resolution process under the contract in order for payment to be settled.

   Based on available data on the 48 contracts, three project proponents have filed notices of occurrence of MAGA due to actions taken by the government during the pandemic. Of these three project proponents, one has filed a claim for compensation for MAGA amounting to ₱0.184 billion. Meanwhile, seven project proponents have filed notices for occurrence of force majeure. Finally, one project proponent has filed claims for compensation with an amount of ₱8.04 billion, for the IA's failure to fulfill government obligations. As of reporting date, no payments have been made due to the occurrence of MAGA, force majeure, and failure to fulfill government obligations

   Aside from an event of default, another instance that may lead to contract termination is a force majeure event that occurs and subsists. A prolonged force majeure event may force the parties to terminate the contract.

   Based on available data, the PPP Center does not foresee any contract being terminated by 2023 due to an event of default. As of reporting date, no notice of violation has been filed by any of the project proponents of the 48 PPP contracts.

118. Since commitments under PPP arrangements are written in the contract, one way to limit government liability is to identify, assess, and control risk events. The PPP Center finds that contractual provisions on risk events varied across the 48 PPP contracts:

a. In one of the contracts, failure to disclose any 3rd party agreement that would affect the project was absorbed as a risk event on the part of the IA. The other contracts do not contemplate this risk event.

b. Conditions precedent for construction or operations and maintenance to start varied across the 48 PPP contracts. Moreover, some contracts impose liquidated damages for failure to achieve a condition precedent, while others do not.

c. The project proponent's obligation to deliver and maintain performance security varied across the 48 PPP contracts. Some contracts are strict in maintaining the amount of performance security throughout each stage of the contract, while other contracts are not.

d. The 48 PPP contracts varied on what events are considered as MAGA or considered as force majeure. Materiality thresholds, caps for contingent liability, and mitigation strategies also varied across the contracts.

e. Not all contracts provide liability on the part of the project proponent for failure to hand back the assets under required conditions.

f. Computation of termination payments varied across the 48 PPP contracts in terms of ground for termination, timing of termination, expenses of the project proponent to be covered by the termination payment, and kinds of lender's debts that would be paid.

119. In the PPP Center's pilot review of government liabilities at the local level, three PPP contracts of local government units (LGUs) were covered. A more comprehensive review will be provided in succeeding reviews and reports.

The pilot review yielded limited safeguards to control contingent liabilities. Below are some insights:

a. There are no explicit timelines for construction completion across the three LGU contracts.

b. One LGU contract provides for consequences or penalties to be imposed for late delivery of right-of-way or asset, delay in achieving financial close, and failure to achieve financial close; the other two LGU contracts do not.

c. Across the three LGU contracts, there are no clear set of rules in determining fees and charges, key performance indicators, termination and termination payment, asset turnover, among others.

d. Across the three LGU contracts, loan agreements and other finance documents were not required to be disclosed to the public or to the IA.

120. Aside from government liabilities, the PPP Center also monitors and reviews the liabilities of project proponents. The firm liabilities of project proponents could include payments committed as per winning bid, share in the cost of an independent consultant, fixed payments to the IA, reimbursement of costs, user fees that belong to the IA, operating expenses, and lease payments, among others. Based on available data as of March 31, 2022, the total firm liabilities of the project proponents that appear in 29 out of 48 contracts amount to at least ₱63.75 billion over the life of the contracts. Of this amount, at least ₱25.86 billion has been confirmed paid.

The project proponents may also incur contingent liabilities from their failure to fulfill an obligation, failure to achieve key performance indicators, among others. Based on available data as of March 31, 2022, IAs have filed claims for compensation with a total amount of ₱205.46 million. Also, a total of ₱3.09 million payments have been made by the project proponents.

121. Finally, a major development in the management of government liabilities in PPPs is the recent amendments to the BOT Law IRR. The 2022 BOT Law IRR, which became effective April 26, 2022, provides rules in managing government liabilities in contracts, such as disclosure of liabilities to be assumed by the government; submission of a risk mitigation plan for contingent liabilities, as defined therein; approval of the nature and the amount of liabilities; and monitoring and reporting of liabilities. Said IRR also requires MAGA provisions in future PPP contracts to include rules on materiality or amount threshold, nature and compensation, cap on monetary compensation, conditions for termination and termination payment due to MAGA.

C. LOCAL GOVERNMENT UNITS (LGUs)

Fiscal Performance and Medium-Term Outlook

122. The preliminary FY2021 target of BLGF for locally sourced revenues (LSR)[32] of local government units (LGUs) was set at ₱223.90 billion. In FY2021, the local revenue collections of provinces, cities and municipalities surpassed the full-year target, reaching 111.56% efficiency, and posted ₱249.78 billion collections. This can be attributed to the more relaxed community quarantine as the government shifted to alert level system with more granular lockdowns and faster vaccination programs to allow more businesses to operate and consumers to participate in socio-economic activities. The total local revenue collections, including Other Receipts, reached ₱256.21 billion in FY2021. Local tax revenues accounted for 75% of the LSR, amounting to ₱191.36 billion, wherein ₱113.16 billion came from local business tax collections. Meanwhile, 25% of the LSR, or ₱64.86 billion were sourced from non-tax revenues.

123. The total current operating income of LGUs, composed of local and external sources, increased by 4.48% or ₱37.37 billion from FY2020 to FY2021. The increase is mostly attributed to the Internal Revenue Allotment (IRA) of LGUs, which is 7.35% higher than the IRA in FY2020. On the other hand, other central transfers to LGUs decreased by 6.46% from ₱65.28 billion in FY2020 to ₱61.06 billion in FY2021, due to the one-time Bayanihan Grant (BG) released to LGUs in FY2020, which was no longer granted in FY2021.

124. The NG implemented stringent preventive measures in suppressing the Covid-19 pandemic. Through the relaxation of community quarantines, which is complemented by accelerated vaccination rollouts, it is projected that the LGUs' LSR will grow to ₱280.06 billion in FY2022 and improve further to ₱314.20 billion in FY2023.

125. With the implementation of the Mandanas-Garcia Ruling this year, LGUs have already started receiving higher transfers from NG in the form of National Tax Allocation (NTA),

[32] Based on the Statement of Receipts and Expenditures reports of LGUs as of 21 October 2021. Excludes Other Receipts (Other General Income) of the LGUs which are not included in the target set by the BLGF

which will enable them to provide quality basic services and facilities to their residents, as well as to effectively fulfill other duties and obligations devolved to them pursuant to Executive Order (EO) No. 138, s. 2021 and other laws which subsequently assigned new functions to LGUs.

126. In terms of LGU borrowings, the BLGF issued 372 certificates in FY2021, which is 27% more than those issued in FY2020. The certificates of Net Debt Service Ceiling and Borrowing Capacity (NDSC/BC) issued have a total loan amount of ₱96.16 billion and a total BC of ₱267.32 billion. The average BC utilization is 54.23%. This level of utilization is higher than the average for the past five years which is just 49%. Based on the debt service (DS) ratio, there are only 3 out of 1,715 LGUs that have already exceeded the allowable DS ratio benchmark during the FY2021.

127. The BLGF is expecting a decrease in the number of LGU with borrowings in FY2022 as compared to FY2021 level, given the historical trend of significantly fewer LGU borrowings every election year, whether national or local, as compared to the immediately preceding year.

Sources of Fiscal Risks

128. With the continuous effort of NG in gradual reopening of the economy with the imposition of granular lockdowns and faster roll-out of vaccination programs, collection of local revenues of LGUs are expected to increase in FY2022. However, the likelihood of a new Covid-19 strain emerging could have an impact on government projects and policies aimed at restoring the economy. With this, NG could be on the verge of imposing another strict community quarantines, closing borders and halting business operations, all of which could afflict the revenue collections of LGUs.

129. The majority of the provinces, cities and municipalities remain IRA/NTA dependent, recording 64% contribution to the current operating income in FY2021. In line with the implementation of the Mandanas-Garcia Ruling, the NTA shares to total operating income of LGUs is expected to significantly increase to 69%. Consequently, as the LGUs anticipate increased fiscal resources from NG, it could dampen their efforts in implementing resource mobilization strategies which could lead to higher dependence on NG transfers for their regular operations.

130. The FY2023 NTA shares of LGUs is Php820.27 billion, which is ₱138.77 billion or 14.44% lower than the FY2022 NTA shares of LGUs, based on the certifications issued by the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), and the Bureau of Treasury (BTr) on the shares on LGUs from the actual collection of national taxes in FY2022. This should be taken into consideration in LGUs' preparation of their Devolution Transition Plans (DTPs) which will serve as their roadmap in the implementation of EO No. 138,s. 2021 and in their local plans and investment programs to ensure the availability of corresponding fund source.

131. Moreover, some LGUs may experience difficulties in financial management, which could result in underutilization of funds, as many LGUs do not have the capacity to absorb significant increase in revenues and due to lack of information on where and how to use the funds. Similarly, this could also lead to a gap in the delivery of basic services to the constituents and consequently, for the NG to provide those services again. Service delivery gap could also occur if the DTP of NG and LGUs are not aligned, particularly on critical devolved functions and services that should be considered by the LGUs, since they were given the authority to determine the functions and services that they shall pursue.

132. The late submission of the DTPs of NGAs would affect the DTPs of LGUs, taking into account that it is vital for LGUs to be informed of the specific functions, projects, programs, and activities that will be fully devolved to them by the NGAs, in order for the LGUs to properly prepare elective and efficient transition plans in assuming the devolved functions.

133. The implementation of the Mandanas-Garcia Ruling would have a considerable impact on NTA-dependent LGUs, since they currently rely largely on the NTA for regular operations, and may not have enough funds to implement the devolved functions. Hence, NTA-dependent LGUs might need additional financing support.

134. Some LGUs may exceed their Personal Service (PS) limitation brought about by the proposed changes in the organization structure and stating pattern with the absorption of devolved services. Based on the FY2020 and FY2021 PS ratio[33], there were 489 and 406 LGUs, respectively, that appear to have already spent more than the allocated PS limitations. With this, LGUs should be more cautious in their spending as their devolved functions and services will remain constant while revenue sources may not be stable.

135. The setting up of the Special Health Fund (SHF), as provided in Republic Act (RA) No. 11223[34,] may expose LGUs to compliance risk as the prescribed operating policies to implement the Joint Memorandum Circular (JMC) 2021-0001, dated 13 January 2021, are yet to be issued by the concerned implementing agencies. Moreover, the said JMC requires the creation of a Management Support Unit (MSU) to provide support to the Provincial Health Board (PHB) and City Health Board (CHB) in the management of SHF. The PHB/CHB have the authority to designate or appoint existing LGU technical personnel as part of the MSU. Transferring personnel, or adding additional workload, may expose LGUs to operational and technical risks. Managing personnel may pose a problem, particularly in the early stages of implementation of the SHF, in consideration of the issue of LGUs regarding minimal man-power compliment.

136. Since the start of the Covid-19 pandemic, the BLGF has cautioned the LGUs applying for loans in light of the anticipated medium-term economic effects of the Covid-19 pandemic on their local revenue generation capacity. Simulations are being prepared on the LGUs' proposed loan requirement and existing loans. For LGUs which will possibly breach the statutory 20% limitation on debt services and/or those which loan requirement already exceed the borrowing capacity, the BLGF recommends scaling down of the LGU's loan requirement, in coordination with the lending institution.

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[33] Personal Services Expenditure Ratio (PSER) ≤ 45%o for 1st to 3rd income class LGUs and 55% for 4th or lower-income class LGUs

[34] Universal Health Care (UHC) Act

137. Historical trend shows and predicts for FY2023, the year after election year, to have an increase in the number of requests for issuance of Certificate of NDSC/BC, for the purpose of availing loans by the borrowing LGUs. In 2017 and 2020, the number of Certificates issued increased by 192% and 151%, respectively, compared to the years prior, which were election years.

138. In view of the Commission on Elections (Comelec) Resolution No. 10747, promulgated on 16 December 2021, which provides the rules and regulations on prohibition against release, disbursements or expenditures of public funds and construction of public works and issuance of treasury warrants and similar devices, the risk of stoppage of LGU projects due to election may be minimal. The policies and procedures to assist LGUs discern and avert risk regarding the implementation of local public works and infrastructure projects, even foreign assisted projects during the election period are in place. Pertinent provisions regarding implementation of public works and projects are provided under Sections 2[35] and 4[36] of the said Comelec Resolution, which provides the prohibition on the release, disbursement or expenditures of public funds in relation to all locally sourced public works, foreign assisted projects and public works undertaken by contract through public bidding held or negotiated, effectivity of which is on 25 March 2022 until 08 May 2022.

139. As the Philippines is regarded as among the most disaster-prone countries because of its geographical location, natural disasters can have significant financial effects for LGUs, especially in typhoon-prone LGUs, since they are likely to incur increased expenditures and/or partial reallocation of already committed financial resources, thus affecting planned investment and other expenditures. In addition, collections of local revenue of LGU would be most likely to drop as an effect of fall in the economic activities. As a result, LGUs may face increasing financial difficulties, which could lead to higher levels of borrowings, or, if impacted, LGUs with debts, may be unable to repay them on time.

Risk Mitigating Measures and Initiatives

140. To lessen the impact of the Mandanas-Garcia Ruling on NGAs' budget and for fiscal sustainability, the President issued EO No. 138, s. 2021, directing the national government agencies, such as the Department of the Interior and Local Government (DILG), the Department of Budget and Management (DBM) and the Department of Finance (DOF), to strengthen the capacity development of the LGUs in public financial management processes, such as local planning, investment programming, resource mobilization and budgeting, to ensure that the allocation of the revenue allotment is in accordance with Section 17 of the LGC and other relevant laws.

141. To address the possible fiscal gap due to the decrease in FY2023 NTA of LGUs, the BLGF will closely monitor and encourage LGUs to strengthen their own revenue-generating measures such as the updating of their Local Revenue Code and Schedule of Market Values (SMV), and assist them in availing of other financing modalities such as credit financing to take advantage of the FY2022 higher NTA as base of their borrowing capacity.

[35] Section 2. Prohibition on Release, Disbursement of Expenditure of Public Funds

[36] Section 4. Submission to the Commission of lists of authorized public work projects.

142. A Growth Equity Fund (GEF) was proposed to address the issues on marginalization, unequal development, high poverty incidence, and disparities on fiscal capacities among LGUs. This aims to cover the funding requirements for programs, projects, and activities, particularly the basic infrastructure, of the poor, disadvantaged and lagging LGUs, allowing them to gradually implement the functions and services devolved to them. In FY2022 General Appropriations Act (GAA), the originally proposed GEF was reduced from ₱10 billion to ₱1.25 billion and the President, in his FY2022 GAA Veto Message, mentioned that the GEF shall be executed in accordance with the guidelines to be issued by the Development Budget Coordination Committee (DBCC), pursuant to EO No. 138, s. 2021.

143. The DBM and DILG issued the guidelines for the LGU DTP, which includes the accomplishment of Annex J, pertaining to the Local Revenue Forecast and Resource Mobilization Strategy of the LGU. The BLGF has been conducting capacity building strategies to help the local treasurers in accomplishing Annex J of the LGU DTP.

144. The BLGF has also long been providing capacity building programs to LGUs, specifically to the local treasurers, through learning sessions and training of trainers in the areas of resource mobilization, revenue generation, local tax administration, real property valuation, assessment, fees and charges design, credit financing, and other related matters to ensure revenue targets are realized. In addition, a series of rollouts on the updated treasury and assessment manuals will be conducted as part of the strategic dissemination of essential updates on their day-to-day operations. Moving forward, the inequality among LGUs must be addressed by providing targeted support to local governments that lack proper capacity and resources.

145. LGUs should be strategic and realistic with their budgets, the use of their remaining surplus, the adoption of austerity measures, but prioritizing recovery, and tapping of other sources of financing, such as credit financing for local economic growth. It is also important for LGUs to further strengthen their tax administration practices, adopt information technology or digitize local finance, particularly on assessment and collection, and be mindful of the effect of local tax policies on incentives and reliefs. Further, as the development tracks of LGUs vary, well-designed stimulus and financial assistance to LGUs is essential as part of post-Covid-19 strategies for resiliency and recovery.

146. To facilitate stability in the computation of borrowing capacity of the borrowing LGUs and the issuance of Certificate of NDSC/BC, and to promote fiscal accountability of the LGUs, BLGF Memorandum Circular (MC) No. 010.2021[37] was issued to synchronize the timelines of submission of the documentary requirements under Section 3.3 of DOF Department Order (DO) No. 054.2016[38].

147. As part of reviving the local economies, the LGUs may grant incentives to new investments. Tax incentives, if properly designed and implemented, can be a useful tool in attracting investments that would not have been made without tax benefits. Increasing investment by reducing the after-tax cost of investment may lead to increased capital transfers, transfers

[37] Advisory on Section 3.3 of DO No. 054.2016

[38] Streamlining the Certification of Net Debt Service Ceiling and Borrowing Capacity of LGUs

of know-how and technology, increased employment and improved workforce and assistance in improving conditions in less-developed areas.

148. At the national level, Package 3 of the Comprehensive Tax Reform Program (CTRP), otherwise known as the Real Property Valuation and Assessment Reform (RPVAR) bill, is considered as a strategic component of the post-pandemic recovery measures to ensure a progressive and sustainable revenue stream for the government, and to foster greater transparency and trust in the real property valuation system in the country. The potential revenues from the real property market may be used for health, social and infrastructure projects to jumpstart their local economy. The reform will make the property valuation system efficient, equitable, transparent, and reliable. Further delay in the passage of this reform would hamper the government in addressing the delays in various infrastructure programs due to issues on right-of-way acquisition. However, the passage of RPVAR bill in the 18th Congress will be a challenge as there are only a few sessions days remaining before the current Congress ends. Continuous initiative and effort in the next Congress are necessary for the proposed reform measure to be put in place.

149. In terms of special projects, the BLGF is implementing the Local Governance Reform Project (LGRP), an Asian Development Bank (ADB) loan-funded project, which aims to improve the quality of real property valuation and property tax administration in the country through (i) strengthened institutional arrangements and develop policies on real property tax (RPT); (ii) developed and implemented property tax valuations database and information systems; (iii) enhanced RPT administration for selected LGUs; and (iv) professionalized local assessors and strengthened the capacity of LGUs on property appraisal and assessment.

150. Under the RA No. 10121, or the Philippine Disaster Risk Reduction Management Act of 2010, at least 5% of the estimated regular revenues of LGUs shall be allocated for Local Disaster Risk Reduction Management Fund (LDRRMF), in which 30% shall be used for Quick Response Fund (QRF) and 70% for disaster prevention and mitigation, preparedness, response, rehabilitation and recovery. Based on the FY2022 NTA, the estimated LDRRMF of all provinces, cities and municipalities is ₱38.36 billion (₱11.03 billion for provinces, ₱11.03 billion for cities and ₱16.4 billion for municipalities).

151. Lastly, the proposed bill which will make property insurance mandatory for all LGUs seeks to prevent unnecessary loss and destruction of properties and infrastructure caused by calamities and other unfortunate events that greatly affect the communities, through property insurance which provides protection against most risks to property. With the proposed bill, all municipalities, regardless of class, will be given ample protection by law to help and support them in case of contingency and with sufficient support from the National government, it will lessen, if not prevent, the negative impacts brought about by calamities and unfortunate events.

D. NATURAL DISASTERS

Country Profile

152. **In terms of disaster and climate risks, the Philippines, located in the Pacific Ring of Fire and the Northwest Pacific Basin, is consistently ranked in the top based on global risk indices and international reports analyzing disaster and climate events**. In the 2021 World Risk Report[39], the Philippines belong to a group of ten (10) "island states" (among the top 15 and a total of 181 countries) with the highest disaster risk. Among 45 countries studied in Asia, the report also places the country second (i.e., Brunei being the first) with the highest risk category.[40] In its 2021 edition, the World Risk Index ranks the Philippines 8th in the countries with the highest exposure to earthquakes, cyclones, floods, droughts, and sea-level rise.[41] The Human Cost of Weather-Related Disasters also reported that the Philippines is the fourth in the world among countries hit by the highest number of disasters over the past 20 years from 2000 – 2019.

153. Based on the Climate Risk Index for 2019, the Philippines ranked 17th out of 180 countries most affected by the direct climate-related impacts on 2019 data of extreme weather events of 180 countries.[42] Over a twenty-year period (2000-2019), the country ranked fourth out of ten most affected by extreme weather events.

154. **World Meteorological Organization (WMO) State of the Global Climate 2021 - Provisional Report.** The WMO concluded that the global mean temperature in 2021 (January to September) was at "1.08 degrees Celsius above the 1850 - 1900 pre-industrial average".[43]

155. **WMO Provisional Statement - Notes on the Philippines**. The report highlights that the Philippines is among the countries with the highest number of displacements (i.e., more than 214,000 in July and more than 386,000 in October) recorded as of October 2021. The report notes that "most internal displacements were triggered by typhoons, floods, earthquakes, and volcanic eruptions, especially in the East Asia and Pacific region".[44]

156. **International Monetary Fund (IMF) Outlook**. According to the IMF, the Philippines needs to ensure the "momentum of structural reforms, *climate mitigation and adaptation among others*, to rekindle investment and revert back to its robust pre-pandemic growth rates.[45]

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[39] Since 2018 the report is published in cooperation with the Institute for International Law of Peace and Armed Conflict (IFHV) of the Ruhr-University Bochum. The World Risk Report should contribute to look at the links between natural events, climate change, development and preparedness at a global level and to draw future-oriented conclusions regarding relief measures, policies and reporting (source: https://www.germanwatch.org/en/cri)

[40] Global Landscape of Climate Finance 2021. (2021, December 14). Climate Policy Initiative. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/

[41] Ibid.

[42] Global Climate Risk Index 2021. (2021, January 13). Germanwatch eV. https://reliefweb.int/sites/reliefweb.int/files/resources/Global%20Climate%20Risk%20Index%202021_1_0.pdf. *This is the latest data from Climate Risk Index 2021.*

[43] State of the Global Climate 2021: WMO Provisional report. (2021). WMO Library. https://library.wmo.int/index.php?lvl=notice_display&id=21982#.YiqvC3pBzIV

[44] Ibid.

[45] IMF Staff Completes Virtual 2021 Article IV Mission to the Philippines. (2021, June 15). International Monetary Fund. https://www.imf.org/en/News/Articles/2021/06/15/pr21177-imf-staff-completes-virtual-2021-article-iv-mission-to-the-philippines

Impacts of Natural Disasters and Human-Induced Disasters

157. Tropical Cyclones. From 2018 to 2021[46], 79 tropical cyclones were tracked by the Department of Science and Technology-Philippine Atmospheric, Geophysical, Astronomical Services Administration (DOST-PAG-ASA). Of the total, 24 were categorized as Typhoons while 4 were classified as Super Typhoons.

Table 14. Philippines: Number of Recorded Tropical Cyclones

Year	Number of Recorded Tropical Cyclone	Of which, Typhoon or Super 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)
2021	15	5 (2- Typhoon; 3 - Super Typhoon)
Total	**79**	**28 (24 Typhoons; 4 Super Typhoon**

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

158. Super Typhoon Odette hit the Philippines during December 2021. According to the Situational Report National Disaster Risk Reduction and Management Council (NDRRMC)[47], a total of 2,991,586 families or 10,607,625 persons were affected in Regions MIMAROPA, V, VI, VII, VIII, IX, X, XI, XII, CARAGA, and BARMM. It caused damage to infrastructure estimated at PHP29.34 billion; and PHP 17.75 billion damages to agriculture, most of which were recorded in Region VI.

[46] PAGASA Annual Tropical Cyclone Tracks 2021 is yet to be published
[47] Situational Report for TC ODETTE (2021). (2022, February 21). Monitoring Dashboard. https://monitoring-dashboard.ndrrmc.gov.ph/assets/uploads/situations/SitRep_No__46_for_Typhoon_ODETTE_2021.pdf

Table 15. Philippines: Estimated Cost of Damages to Infrastructure and Agriculture from Typhoon Odette
(in pesos)

Region	Estimated Cost of Damages to Infrastructure	Estimated Cost of Damages to Agriculture
CALABARZON	-	514,600
MIMAROPA	1,437,594,142.18	4,768,816,954.82
Region 5	-	1,017,475
Region 6	-	6,182,679,072.06
Region 7	4,205,649,557.92	1,284,610,039
Region 8	173,400,000	2,529,794,285
Region 10	688,901,000	1,130,179,415.82
Region 11	-	54,784,894.79
Region 12	20,000,000	10,203,400
CARAGA	22,812,640,655.84	1,785,548,135.42
Total	**29,338,185,355.94**	**17,748,148,271.91**

Source: *SitRep No. 46 for Typhoon ODETTE (2021) February 21, 2022 08:00 am*

159. **Cost of damages and investment requirement for areas affected by Typhoon Odette (International name: Rai)**. The total estimated cost of damages caused by Typhoon Odette is ₱211.66 billion, with Region VII incurring the most damage at ₱86.51 billion. The said typhoon also resulted to additional economic losses estimated at ₱69.04 billion.

Table 16. Philippines: Damages, losses and needs from Typhoon Odette
(in billion pesos)

REGION	DAMAGES	LOSSES	NEEDS
MIMAROPA	4.40	4.25	24.99
VI	20.14	8.75	50.00
VII	86.51	34.83	182.20
VIII	61.74	10.26	41.91
X	1.31	0.78	4.40
XIII	37.56	10.17	87.05
TOTAL	**211.66**	**69.04**	**390.55**

Source: Post-Disaster Needs Assessment as of March 01, 2022. The assessment on needs is validated in the formulation of the Regional Rehabilitation and Recovery Program.

160. To hasten the rescue, relief, and rehabilitation efforts of the government and the private sector, including any international humanitarian assistance, President Rodrigo Duterte issued Proclamation No. 1267[48] on December 21, 2021, declaring a State of Calamity in Regions IV-B, VI, VII, VIII, X, and XIII. It recognized the widespread devastation and damage of Typhoon Odette to houses, infrastructure, properties, and agriculture.

161. Based on the draft Regional Rehabilitation and Recovery Programs (RRPs) as of March 11, 2022, the total investment requirement for the rehabilitation of areas affected by Typhoon Odette amounts to ₱180.16 billion, with Regions VII and XIII having the largest share at ₱60.01 billion and ₱60.04 billion, respectively. For FYs 2022 and 2023, the financing requirements amounts to about ₱74.38 billion and ₱50.42 billion, respectively. This will cover various reconstruction projects for damaged infrastructures and facilities, assistance to affected families/individuals through cash assistance, livelihood support programs and housing assistance, and other rehabilitation activities to help affected communities rebuild from the devastation of the typhoon.

Table 17. Philippines: Summary of Investment Requirements by Region (in billion pesos)

REGION	2022	2023	2024	2025 and beyond	TOTAL
MIMAROPA	6.56	4.57	3.22	12.71	27.06
VI	10.52	2.65	1.46	-	14.63
VII	29.10	19.05	11.86	-	60.01
VIII	11.20	2.96	0.82	-	14.98
X	1.97	0.99	0.49	-	3.45
XIII	15.03	20.19	11.70	13.12	60.04
TOTAL	**74.38**	**50.42**	**29.54**	**25.82**	**180.16**

Source: RRPs as of March 11, 2022
Note: Totals may not add up due to rounding up

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

[48]SBIZHUB 36721122213240. (2021, December 21). Official Gazette. https://www.officialgazette.gov.ph/downloads/2021/12dec/20211221-PROC-1267-RRD.pdf

163. Per advisory from DOST-PAGASA, the weak El Niño which started to develop in the last quarter of 2018 has ended in August 2019[49]. 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.[50]

164. Based on the latest monitoring of PAG-ASA, La Niña persists and is likely to continue until Mar-Apr-May 2022 season (76% chance) and returning to ENSO-neutral conditions during May-June-July 2022 season (56% chance). La Niña increases the likelihood of having above normal rainfall conditions in some areas of the country.[51]

165. **Geological Hazards: Volcanic Eruptions**. The Philippines is situated at the boundaries of the Philippine Sea Plate and the Eurasian Plate which makes it vulnerable to volcanism and earthquake activity. Currently, the country has 24 active volcanoes, with 13 located in Luzon, 3 situated in Visayas, and 8 located in Mindanao.[52] According to the Philippine Institute of Volcanology and Seismology (PHIVOLCS), **Taal Volcano is at Alert Level 3 (Magmatic Unrest) as of March 26, 2022**[53], while Kanlaon Volcano is at Alert Level 1 as of March 26, 2022.[54]

166. Geological Hazards: Volcanic Eruptions. The Philippines is situated at the boundaries of the Philippine Sea Plate and the Eurasian Plate which makes it vulnerable to volcanism and earthquake activity. Currently, the country has 24 active volcanoes, with 13 located in Luzon, 3 situated in Visayas, and 8 located in Mindanao. According to the Philippine Institute of Volcanology and Seismology (PHIVOLCS), Taal Volcano is at Alert Level 3 (Magmatic Unrest) as of March 26, 2022 , while Kanlaon Volcano is at Alert Level 1 as of March 26, 2022.

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[49]DEPARTMENT OF SCIENCE AND TECHNOLOGY. (2019, August 9). Welcome to pubfiles.pagasa.dost.gov.ph! https://pubfiles.pagasa.dost.gov.ph/pagasaweb/files/climate/elninolanina/ENAdvisory_7.pdf

[50]Situational Report re Preparedness Measures and Effects of El Niño. (2019, August). NDRRMC. https://ndrrmc.gov.ph/member-agencies/8-ndrrmc-update/3676-sitrep-re-preparedness-measures-and-effects-of-el-ni%C3%B1o

[51]Adoption of the PAGASA ENSO ALERT AND WARNING SYSTEM. (n.d.). PAGASA. https://bagong.pagasa.dost.gov.ph/climate/el-nino-la-nina/monitoring

[52]Volcanoes of the Philippines. (n.d.). Philippine Institute of Volcanology and Seismology (PHIVOLCS). https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcanoes-of-the-philippines

[53]DOST-PHIVOLCS. (2022, March 26). Taal Volcano Eruption Update 26 March 2022 07:45 PM. https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletin2/taal-volcano/14331-taal-volcano-eruption-update-26-march-2022-07-45-pm

[54]Kanlaon Volcano Summary of 24Hr Observation 26 March 2022 5:00 AM. (2022, March 26). Phivolcs. https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletin2/kanlaon-volcano/14322-kanlaon-volcano-summary-of-24hr-observation-26-march-2022-5-00-am

Table 18. **Philippines: Earthquakes in January to March 2022**

(Magnitude 5 and above)*Magnitude (5 up)	Dates	Location
Mw 5.3, Ms 5.0,	March 21, 2022	Burauen (Leyte)
M 5.3	March 16, 2022	Lubang (Occidental Mindoro)
Mw 6.4, Mw 6.4, Mw 6.4, M 5.7, M 5.4, M 5.0, Mw 5.1	March 14, 2022	Lubang (Occidental Mindoro)
M 5.0	March 11, 2022	Monkayo (Davao De Oro)
Mw 5.6	March 08, 2022	Balut Island (Municipality Of Sarangani) (Davao Occidental)
Mw 5.3, Mw 5.3, M 5.3	February 26, 2022	Jose Abad Santos (Davao Occidental)
Ms 5.3, Ms 5.3, M 5.3	February 21, 2022	Abra De Ilog (Occidental Mindoro)
mb 6.0, mb 5.2, mb 5.2		Governor Generoso (Davao Oriental)
Mw 5.7, Mw 5.7, Mw 5.7, Mw 5.2, Mw 5.2		Jose Abad Santos (Davao Occidental)
Mw 5.4, Mw 5.4, M 5.4	February 13, 2022	Dalupiri Island (Calayan) (Cagayan)
Mw 5.1, Mw 5.1, Mw 5.1, Mb 5.3,	February 12, 2022	Sabtang (Batanes)
Mw 5.1, Ms 5.1, M 5.3	February 11, 2022	Kiamba (Sarangani)
Ms 5.0	January 30, 2022	Palauig (Zambales)
Mw 5.2, Mw 5.2		Bajo De Masinloc (Masinloc) (Zambales)
Ms 5.3, Ms 5.3, Mw 5.6	January 23, 2022	Manay (Davao Oriental)
Mw. 6.1, Mw 6.1, M 6.5, Ms 5.0	January 22, 2022	Balut Island (Municipality Of Sarangani) (Davao Occidental)
Ms 5.4, Ms 5.4		Baganga (Davao Oriental)
Mw 5.4	January 21, 2022	Baganga (Davao Oriental)
Ms 5.2, mb 5.2	January 19, 2022	Itbayat (Batanes)

167. Health-related emergencies: COVID-19 Pandemic. As of March 14, 2022, the World Health Organization (WHO) confirmed that cumulative cases with COVID-19 reached 456,797,217 globally, with the United States of America (USA) accounting for 78,777,620 cases (17.25%), the highest COVID-19 cases in a country[55]. In the Philippines, the COVID-19 tracker of the Department of Health (DOH) reported that total cases reached 3,671,293 (46,256 active cases, 3,567,412 recovered, and 57,625 died).[56]

168. Dengue. Since the Declaration of the National Epidemic in August 2019, the Philippines has progressed in its dengue prevention and control. Data shows that there has been an 81% decrease in dengue cases and deaths for 2020 compared to 2019. Moreover, the Philippine Integrated Disease Surveillance and Response Report notes that there is an observed 55% decrease in cases and 56% decrease in deaths during the same time period.[57] For 2021, the DOH reported that from January 1 to December 31, 2021, there were a total of **79,872 dengue cases with 285 deaths,** 12% lower than what was reported in 2020. This compares to the 91,108 cases and 363 deaths reported in the same period in 2020[58]. As of March 05, 2022, 8,110 cases of dengue, including 51 deaths have been reported.[59]

169. Measles. In the Philippines, it is estimated that 2.4 million children under the age of five are susceptible for measles or "tigdas". Among those who are not immune, up to 9 out of 10 people exposed to the measles virus will contract the disease.[60] The DOH, supported by the WHO and United Nations Children's Fund (UNICEF), conducted a nationwide Measles Rubella-Oral Polio Vaccine Supplemental Immunization campaign from October 2020[61] to March 2021.[62] It is worth noting that from January 1, 2021 to March 5, 2022, there is no reported case of death from measles.[63]

170. Disaster Arising from Armed Conflicts. According to Task Force Bangon Marawi's (TFBM) Post-Conflict Needs Assessment (PCNA), total damage and losses in 2016 amounted to PHP 19.17 billion, or about 17.7% of Autonomous Region in Muslim Mindanao's (ARMM) Gross Regional Domestic Product (GRDP) and 0.12%of the country's Gross Domestic Product (GDP). As of April 4, 2022, out of the 769 Programs, Projects, and Activities (PPAs) included in the Bangon Marawi Comprehensive Rehabilitation and Recovery (BMCRRP), 150 have already been completed, 148 are ongoing, 441 are still in

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[55](n.d.). WHO Coronavirus (COVID-19) Dashboard | WHO Coronavirus (COVID-19) Dashboard With Vaccination Data. https://covid19.who.int/

[56]COVID-19 Tracker | Department of Health website. (n.d.). DOH. https://doh.gov.ph/covid19tracker

[57]DOH OBSERVES NATIONAL DENGUE AWARENESS MONTH, LEADS THE 2021 ASEAN DENGUE DAY REGIONAL FORUM | Department of Health website. (2021, June 17). DOH. https://doh.gov.ph/press-release/DOH-OBSERVES-NATIONAL-DENGUE-AWARENESS-MONTH-LEADS-THE-2021-ASEAN-DENGUE-DAY-REGIONAL-FORUM

[58] Statistics. (n.d.). Department of Health. https://doh.gov.ph/statistics

[59]Source. PIDSR, MW 9

[60]DOH, WHO. (2020, September 17). UNICEF. https://www.unicef.org/philippines/press-releases/doh-who-unicef-conduct-nationwide-measles-campaign-starting-october-26

[61] Ibid.

[62]DOH Vaccination Activity Against Measles, Rubella, and Polio extended until March 7| Department of Health website. (2021, March 3). DOH. https://doh.gov.ph/doh-press-release/DOH-VACCINATION-ACTIVITY-AGAINST-MEASLES-RUBELLA-AND-POLIO-EXTENDED-UNTIL-MARCH%207

[63] Statistics. (n.d.). Department of Health. https://doh.gov.ph/statistics

pipeline, and 30 have been dropped.[64] Meanwhile, a total of PHP28,757.43 million in Official Development Assistance (ODA) from Multilateral Partners[65] (PHP28,350.31 million of which are in loans, while PHP407.12 million are in grants) has been committed as of April 01, 2022.

171. For FY 2022, the approved National Disaster Risk Reduction and Management Fund (NDRRMF) amounts to **₱20 billion,[66]** broken down as follows:

a. **₱19 billion under the NDRRM Program**, which may be used for reconstruction, rehabilitation, repair, aid, relief and other works or services, including pre-disaster activities, in connection with the occurrence of natural or human-induced calamities, epidemics as declared by the Department of Health (DOH), crises resulting from armed conflicts, insurgency, terrorism, and other catastrophes occurring in the current or two preceding years. This fund may also be used to replenish the Quick Response Fund (QRF) when the balance of the implementing agency has reached 50 percent.

b. **₱1 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, particularly the Marawi siege.

172. In addition to the ₱20 billion NDRRMF, **₱6.35 billion QRF[67]** was also provided in the budgets of the following agencies:

Table 19. Agencies with QRF Appropriation

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

[64] Task Force Bangon Marawi
[65] Asian Development Bank, WB, International Fund for Agricultural Development
[66] FY 2022 General Appropriations Act (GAA) RA 11639, page 762-764
[67] The QRF is a stand-by fund to be used for relief and initial rehabilitation programs and projects.

Marawi Siege Victims Compensation Act of 2022

173. C**ongress approved into law on 13 April 2022, Republic Act No. 11696 or the Marawi Siege Victims Compensation Act of 2022.** This provides that owners of residential, cultural, commercial structures, and other properties in Marawi's most affected areas are entitled to claim compensation for their losses and damages due to the said armed conflict. While the budgetary requirement for the implementation of this law particularly the amount for the compensation claims has yet to be determined, the annual operating budget of the Marawi Compensation Board (MCB) amounts to not more than ₱50 million.

174. The MCB is mandated to evaluate and investigate, approve, and disburse compensation to all qualified claimants. It shall complete its work within five years from the effectivity of the IRR.

Outlook

175. 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 **USD 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. According to NDRRMC Operations Center, damages in agriculture, infrastructure, and private brought about by tropical cyclones amounted to PHP 239,009,778,483.94, PHP 122,086,565,840.39, and PHP 62,080,174,488.38 respectively from 2011 to 2021.

176. **Estimated Impact of COVID-19 on the Philippine Economy[68].** With Luzon comprising the majority of COVID-19 cases during the onset of the pandemic, most regions in Luzon have been placed under Quarantine since March 2020. Luzon, which accounts for 56% of the country's population and contributes 73% to the GDP, is emerging from a standstill in terms of economic activities. With the Philippine economy essentially frozen for several months due to strict lockdowns, annual nominal GDP decreased from PHP19,517,863 million in 2019 to PHP17,938,582 million in 2020 (-8.09 annual GDP growth rate).[69] Nonetheless, the country posted a GDP growth of 7.7% in the fourth quarter of 2021, resulting in 5.6% full-year growth in 2021.[70] GDP is projected to move in a downward trajectory for the upcoming years with 7.7% of GDP in 2022, 6.1% of GDP in 2023 and 5.1% of GDP in 2024, as the government continues to pursue a fiscal consolidation strategy over the medium term.[71]

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[68] National Economic and Development Authority (NEDA) presentation as of 20 April 2020 based on the March 2020 NEDA Report; IATF WG Paper: We Recover as One

[69] Philippine Statistics Authority

[70] GDP Posted a Growth of 7.7 Percent in the Fourth Quarter of 2021, Resulting in a 5.6 Percent Full-year Growth in 2021. (2022, January 27). Philippine Statistics Authority. https://psa.gov.ph/content/gdp-posted-growth-77-percent-fourth-quarter-2021-resulting-56-percent-full-year-growth-2021

[71] DBCC REVIEW OF THE MEDIUM-TERM MACROECONOMIC ASSUMPTIONS AND FISCAL PROGRAM FOR FY 2021 TO 2024. (2021, December 14). The National Economic and Development Authority. https://neda.gov.ph/33245-2/

177. **Industry**. The latest report published by global provider IHS Markit noted that the country's purchasing manager's index (PMI) jumped to a high of 52.8 in February 2022. The report showed a resumption of improvement in the Philippines manufacturing sector and indicated the strongest improvement in the health of the sector since December 2018.[72]

Tourism. The Department of Tourism (DOT) reported that tourism receipts from April to September 2021 reached ₱3.1 billion, up by 91.6 percent from ₱1.6 billion generated in the same period in 2020. The tourism industry in 2021 saw a renewed hope toward a steady recovery path.[73]

Employment. In January 2022, the Philippine Statistics Authority (PSA) reported that the country's unemployment rate was at 6.4% (2.93 million unemployed Filipinos), projecting a decline of 1.04 million from the 3.96 million reported in January 2021. Underemployed persons were accounted for at 6.40 million translating to an underemployment rate of 14.9% (i.e., lower than the 16.0% reported in January 2021 but higher than the 14.7% reported in December 2021)[74].

178. The National Economic and Development Authority (NEDA) further suggests that the long-run total cost of the COVID-19 pandemic and quarantines for both present and future generations of Filipinos amount to PHP 41.4 trillion (net present value terms).[75]

Policies and Institutional Measures and Initiatives

179. 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 manner, guided by the whole-of-government and whole-of-society approaches.

180. The Philippines has been proactively implementing the country's **Disaster Risk Financing and Insurance Strategy (DRFI) Strategy** at the national, local, and individual levels to maintain sound fiscal health, develop sustainable financing mechanisms, and reduce the impact on the poorest and most vulnerable, and shield the near poor.

181. The following are the Government's ongoing disaster risk resilience initiatives in pursuit of the Philippines' DRFI Strategy:

a. **National Budget Allocation for the NDRRMF.** The NDRRMF is one of the annually appropriated budget to cover aid, relief, and rehabilitation services to communities/areas affected by man-made and natural calamities, repair and

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[72] 38-month high manufacturing index due to earlier reopening of economy. (2022, March 1). DTI. https://www.dti.gov.ph/news/38-month-high-manufacturing-index/

[73] Generally optimistic, despite continuing challenges – Manila Bulletin. (2022, January 15). Manila Bulletin. https://mb.com.ph/2022/01/15/generally-optimistic-despite-continuing-challenges/

[74] Unemployment Rate in January 2022 is Estimated at 6.4 Percent. (2022, March 18). Philippine Statistics Authority. https://psa.gov.ph/content/unemployment-rate-january-2022-estimated-64-percent

[75] COVID-19 PANDEMIC TO COST PHP 41.4 T FOR THE NEXT 40 YEARS – NEDA. (2021, September 25). The National Economic and Development Authority. https://neda.gov.ph/covid-19-pandemic-to-cost-php-41-4-t-for-the-next-40-years-neda/

reconstruction of permanent structures, including capital expenditures for pre-disaster operations, rehabilitation and other related activities.[76]

b. The **Philippine Catastrophe Bonds (Cat Bond)**, a sovereign risk transfer, is a USD 225 million disaster risk financing which aims to provide insurance coverage in times of earthquakes (USD75 million) and tropical cyclones (USD150 million). The results of the event calculation for the wind parameters of Super Typhoon (ST) Odette reached the partial trigger for the Cat Bond resulting in a USD52.5 million payout for the government.[77]

c. Acquiring contingent credit lines to protect against moderate disasters through financing facilities such as the Fourth **Disaster Risk Management Development Policy Loan with a Catastrophe Deferred Drawdown Option (CAT DDO 4)** from the World Bank (WB). This financing instrument serves as a standby loan facility from which funds may be disbursed in the form of general budgetary support, after the declaration if a state of calamity or public health emergency. With the recent onslaught of ST Odette, the WB released USD200 million support to the Philippine government's recovery and reconstruction efforts.

d. The **Disaster Resilience Improvement Program (DRIP)** is a **USD 500 million** loan from Asian Development Bank (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. The loan is fully disbursed and will be implemented until 2023.

e. **Philippine City Disaster Insurance Pool (PCDIP).** The PCDIP is currently being developed through an ADB Technical Assistance (TA). The pilot design includes ten cities: Bacolod City, Baguio City, Butuan City, Caloocan City, Dagupan City, Davao City, Iloilo City, Marikina City, Paranaque City and Quezon City. Under said pilot design, the aforementioned cities were engaged in a number of activities such as exposure data collection, needs assessment, and capacity building.

f. **Philippine Catastrophe Insurance Facility (PCIF)**. To support a sustainable insurance market and strengthen the provision of catastrophe insurance for private properties, the Insurance Commission (IC), has issued a regulation to establish the PCIF as evidenced by IC Circular Letter No. 2021-27[78] issued on April 12, 2021. The IC has also issued a regulation on revised minimum rates for catastrophe risk insurance last December 2021.

182. The unprecedented impacts of COVID-19 manifested 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

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[76] Calamity and Quick Response Funds. (2018, March 12). DBM. https://www.dbm.gov.ph/index.php/programs-projects/calamity-and-quick-response-funds#1-what-is-calamity-fund

[77] The said payout was received by the Government of the Philippines as per Bureau of Treasury last February 22, 2022.

[78] Strict Implementation of Sustainable Catastrophe Insurance Premium Rates and Establishment of the PCIF

the burgeoning pandemic. COVID-19 has prompted countries to realign resources, reconfigure priorities, and even design new and sustainable policies.

183. With the improvement in the country's COVID-19 management, the Philippine Government's National Action Plan (NAP) targets a balance between the management of COVID-19 and the safe reopening of the economy.[79] The NAP Phase IV scorecard (i.e., scores ranging from zero to three) presents the accomplishments of the Philippine Government in its battle against COVID-19.

Table 20. Philippines: Accomplishment Score of the National Government's COVID-19 Measures

	Sep 2021	Oct 2021	Nov 2021	Dec 2021
Infection Management	1.20	1.44	2.53	2.74
Vaccine Rollout	0.99	1.28	2.02	2.20
Socioeconomic Recovery	2.18	2.19	2.44	2.69
OVERALL	4.37	4.90	6.99	7.63

Source: Development of the National Action Plan Phase V Meeting

184. **Bayanihan To Heal as One Act.** In the Congressional Policy and Budget Research Department assessment report last August 2020[80], it presented various accomplishments in the implementation of Bayanihan I.

a. **Increase in COVID-19 testing laboratories**. The number of accredited COVID-19 testing laboratories increased from an initial six (6) in April 2020 to 85 as of July 17, 2020.

b. **Support for small businesses**. Low-interest credit and wage subsidies have been given to small businesses to keep them afloat.

c. **Provision of financial assistance**. As of June 26, 2020 data, the government was able to disburse PHP99.80 billion of the PHP101.48 billion allocation in financial assistance to an estimated 17.65 million beneficiaries consisting of Pantawid Pamilyang Pilipino Program (4Ps) and non-4Ps households, and transport workers.

185. **Bayanihan To Recover as One Act or Bayanihan II.** The Bayanihan II, a **USD3.23 billion stimulus package**, allowed the Duterte Administration to keep its health initiatives on front and center of the national COVID-19 response, with funding for contract tracing, streamlined systems for registering viral testing kits and testing centers, and various forms

[79]NEDA UPDATES ON NAP PHASE IV, IATF-APPROVED SCORECARD. (2021, November 29). The National Economic and Development Authority. https://neda.gov.ph/neda-updates-on-nap-phase-iv-iatf-approved-scorecard/?utm_source=rss&utm_medium=rss&utm_campaign=neda-updates-on-nap-phase-iv-iatf-approved-scorecard

[80]A_Results-based_assessment_of_Bayanihan_to_Heal_as_One_Act.pdf. (n.d.). cpbrd policy brief. https://cpbrd.congress.gov.ph/images/PDF%20Attachments/Special%20Publications/A_Results-based_assessment_of_Bayanihan_to_Heal_as_One_Act.pdf

of support to medical workers.[81] Moreover, access -to-credit provisions of Bayanihan II will be amplified through Republic Act No. 11523 (otherwise known as Financial Institutions Strategic Transfer (FIST) Act) and the Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE) bill.[82]

186. COVID-19 Vaccination Program Act of 2021.

a. **2021 Financing**. The total available funds for vaccination in FY 2021 was PHP 88.6 billion where Php 15.8 billion came from the 2021 budget appropriated for the DOH (Php 2.5 billion), the Bayanihan 2 Law (Php 10 billion), and other revenue sources (Php 3.3 billion). The remaining Php 70 B was sourced from Unprogrammed Appropriations, which were partly sourced from multilateral loans with the Asian Development Bank (ADB), WB and the Asian Infrastructure Investment Bank (AIIB) in the amount of PHP 57.3 billion. The government also allocated PHP 2.8 billion in contingency funds.

Table 21. GOP's 2021 Budget for Vaccination

Particulars	Amount (in Php million)
General Appropriations Act	
DOH Budget (CY2021)	2,500.0
Bayanihan II in relation to RA 11520 on Continuing Appropriations	10,000.0
Other Sources	3,300.0
Subtotal	**15,800.0**
Unprogrammed Appropriations	
World Bank	23,900.0
Asian Development Bank	19,100.0
Asian Infrastructure Bank	14,300.0
Subtotal for ODA	**57,300.0**
Other financing sources as necessary[1]	12,700.0
Subtotal	**70,000.0**
Contingency Funds	2,800.0
Total Available Funds	88,600.0

[1] This includes amounts from loan restructuring, which includes the USD25 million reallocation for vaccine procurement under the USD125 million ADB HEAL. The WB PCERP was also restructured to allow the use of USD 30 Million for vaccine procurement, but the said amount has been offset against the WB PCERP-AF Additional Financing loan. Thus, only a total of USD 500 million is available for vaccine procurement under the WB loans.

[81] DOF thanks Congress for Bayanihan 2 passage, seeks support on remaining economic recovery bills | Comprehensive Tax Reform Program • #TaxReformNow. (2020, September 1). Comprehensive Tax Reform Program. https://taxreform.dof.gov.ph/news_and_updates/dof-thanks-congress-for-bayanihan-2-passage-seeks-support-on-remaining-economic-recovery-bills/
[82] Ibid.

b. To unlock the Unprogrammed Appropriations for FY 2021, the Philippine Government executed the following loan agreements for the procurement of COVID-19 vaccines in 2021:

   i. USD 500 million Additional Financing for the Philippines COVID-19 Emergency Response Project (PCERP-AF) with the WB signed on March 19, 2021 and made effective on March 31, 2021; and

   ii. USD 400 million Asian Development Bank (ADB) and USD 300 million Asia Infrastructure and Investment Bank (AIIB) co-financing for the Second Health System Enhancement to Address and Limit COVID-19 under the Asia Pacific Vaccine Access Facility (HEAL 2) signed respectively on March 19, 2021 and March 26, 2021.

c. **2022 Financing.** With literature showing that vaccine effectiveness wanes with time, booster doses are also being administered to a vaccinated population that has completed a primary vaccination series. To this end, the National Government's FY 2022 General Appropriations Act (GAA) has allocated PHP 45.3 billion (around USD 900 million) for the procurement of COVID-19 vaccine booster shots under its Unprogrammed Appropriations (**Table X**) and PHP 2.78 billion under the regular budget of the DOH. This amount will be sourced from the following recently signed loan agreements with the WB, ADB, and AIIB for the procurement of additional vaccine requirements in 2022, specifically relating to COVID-19 third or booster shots for fully vaccinated individuals, and the possible expansion of prioritization to other age groups, subject to securing requisite government and regulatory approvals:

   i. USD 500 million Additional Financing for HEAL 2 (HEAL2-AF) with the ADB and AIIB financing USD 250 million each, signed on December 16, 2021 and made effective on January 27, 2022; and
   ii. USD 300 million Second Additional Financing (AF) with the WB for the Philippines COVID-19 Emergency Response Project-Additional Financing (PCERP-AF2) signed on December 29, 2021 and made effective on March 21, 2022.

Table 22. GOP's 2022 Budget for Vaccination

Particulars	Amount in Php million[1]	Amount in USD million
DOH Budget under the General Appropriations Act	2,780.0	55.2
Unprogrammed Appropriations	**45,297.0**	**900.0**
Asian Development Bank	*12,582.5*	*250.0*
Asian Infrastructure Investment Bank	*12,582.5*	*250.0*
World Bank	*15,099.0*	*300.0*
Other sources	*5,033.0*	*100.0*
Total	**48,077.0**	**955.2**

[1] USDPHP = 50.33

d. **Grant and loan financing**. Project loans and grants amounting to a total of USD2.95 billion have been contracted in support of various projects to be implemented by agencies involved in COVID-19 response **(Annex B)**.

e. **Procurement and Supply**. To ensure stability in vaccine supply, the National Government has adopted vaccine diversification using a portfolio of seven (7) vaccines as part of its procurement strategy with the following manufacturers: Comirnaty (Pfizer/BioNTech), Astrazeneca/Oxford, Moderna (ModernaTX), Coronavac (Sinovac), Janssen (Johnson & Johnson), Sputnik-V (Gamaleya), and BIBP (Sinopharm).

As of March 22, 2022, the government, through various supply and donation agreements, has secured a total of 246.93 million COVID-19 vaccine doses. The secured doses are sufficient to inoculate around 123 million Filipinos or more than 100% of the entire adult population. This also includes 15 million pediatric vaccines meant to inoculate 7.5 million out of 15.6 million members of the 5 to 11 year old age group.

187. **USD22.55 billion in budgetary support financing from the ADB, WB, AIIB, AFD, JICA, KEXIM-EDCF and USD-denominated global bonds.** A total of USD22.55 billion in budgetary support financing has been raised, of which USD22.35 billion represents newly contracted loans from the Asian Development Bank (ADB), WB, Asian Infrastructure Investment Bank (AIIB), Agence Française de Développement (AFD), and Japan International Cooperation Agency (JICA), The Export-Import Bank of Korea-Economic Development Cooperation Fund (KEXIM-EDCF), and foreign currency-denominated global bonds (ROP) bond offers.[83]

188. **COVID-19 Vaccination.** As of March 9, 2021, 237.90 million vaccines have been delivered to the country. With this, 62.68 million have received the first dose, while 63.99 million have been fully vaccinated with their second dose, and 10.68 have received their third or booster shots

189. **Climate Change in the Philippines.** Climate change contributes to our inflation, human security, public health and development progress. Although we strive to invest in efficient adaptation and disaster risk mitigation, a stronger typhoon can bring us back to square one.

190. The carbon intensive industries of developed countries have exacerbated the Philippines' high vulnerability to climate-induced disasters. **Accordingly, the Climate Change Commission (CCC) takes the position in which developed countries must fulfill their obligations on climate finance to deliver climate justice for developing countries and future generations.** Furthermore, adaptation projects and programs are ideally funded through grant-based resources. **In this regard, the Philippines emphasizes the need for a balance between the implementation of sustainable climate change actions and the pursuit of the country's economic growth and development potential.**

191. Despite our miniscule contribution to the global GHG emissions and our bold declaration to reduce our GHG emissions to 75% as committed in our Nationally Determined Contribution (NDC), the Philippines is still at a difficult position in balancing climate

[83] Newly contracted financing refers to loans/bonds executed after Republic Act No. 11469 (Bayanihan to Heal as One Act) was made effective on March 25, 2020

resiliency, our transition to a low carbon economy and our post-pandemic sustainable recovery due to the losses and damages we regularly experience due to climate change.

192. Based on the Philippines' experience of conducting risk assessments and piloting early warning systems, the USD 100 billion per year by 2020 mobilization target is "grossly inadequate" for developing countries. An estimate of USD 85 billion for the needs of the 1,715 LGUs of the Philippines was provided based on actual piloting experience(s), a fraction of the total that would be needed to complete the risk management actions, comprising the Philippines' national climate change adaptation programme.[84]

193. Furthermore, coming from the United Nations Framework Convention on Climate Change (UNFCCC) 26th Conference of Parties (COP26) in Glasgow, Scotland, the Philippines is more driven to be a world leader in climate action. We have shifted from theorizing about climate change to executing practical and tangible climate change mitigation and adaptation measures that have real impacts in our local communities. While we championed for climate justice during the COP26 negotiations and despite the unmet UNFCCC target of USD100 billion per year by 2020, the Philippine government has the obligation to push for the implementation of actual and ground-based projects, programs, and activities to meet our NDC for our people and as part of our global commitment.

194. An estimate of USD 85 billion for the needs of the 1,715 LGUs of the Philippines was provided based on actual piloting experience(s), a fraction of the total that would be needed to complete the risk management actions, comprising the Philippines' national climate change adaptation programme.[85]

195. It is crucial that we mobilize transparent, sustainable and ample climate finance either through blended forms of financing, private partnerships, or international capital market sources in order to generate more investments. However, we are of the view that in order to bridge the financing gap and become economically viable, climate finance should not be limited to either loans or grants. Climate finance should be a factor of the following three elements:

a. *Grants* - Administered with the objective of promoting sustainable social and economic development and welfare. They must be sourced from governments of foreign countries with whom the Philippines has diplomatic, trade relations or bilateral agreements, or which are members of the United Nations, their agencies and international or multilateral lending institutions.

   The Philippines has received USD212.42 million in technical assistance/grants from international and bilateral partners, USD3.538 billion in program loans, and USD11.245 billion in project loans for ongoing climate change and disaster risk management.

   Grants are also crucial as they improve the capacity of the people in the climate vulnerable areas to mitigate and adapt to the situation through provision of technical assistance and knowledge transfer for local communities.

b. *Investments* - With focus on programs, projects and activities that are bankable and will yield return. This can include private sector investments from commercial financial

[84] Climate Change Commission. 2021. Briefer on Long Term Finance.
[85] Climate Change Commission. 2021. Briefer on Long Term Finance.

institutions (CFIs) through sustainable and green debt instruments.[86] The Climate Policy Initiative - Global Landscape of Climate Finance 2021 report[87] posited that current investment levels are nowhere near enough to limit global warming to 1.5 °C. In order to meet the global climate objectives by 2030, annual climate finance must increase by at least 454% to USD 4.13 trillion.[88]

Achieving net zero will require both public and private institutions to provide climate finance to the most vulnerable countries.

c. *Subsidies* - As a support to finance energy producer sectors and help carbon intensive industries to transition from the utilization of dirty energy (e.g., oil, gas and coal) to renewable sources of energy. Consumption-based fossil fuel subsidies for private individuals' utilization of petroleum products can be also considered.[89] Subsidies, when used in conjunction with blended finance, will be an excellent complement.

Finally, this blended approach in climate financing calls for institutionalization of robust transparency and accountability mechanisms to ensure recipient countries are utilizing the provided financing efficiently.

196. 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

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[86] *Global Landscape of Climate Finance 2021*. (2021, December 14). Climate Policy Initiative. https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2021/
[87] Ibid.
[88] Ibid.
[89] *Measuring Fossil Fuel Subsidies in the Context of the Sustainable Development Goals*. (2019). UNEP Document Repository. https://wedocs.unep.org/bitstream/handle/20.500.11822/28111/FossilFuel.pdf

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 among National Government Agencies (NGAs), the Local Government Units (LGUs), and other stakeholders on Climate Change Adaptation and Mitigation Measures.

h. Climate Change Expenditure Tagging (CCET) - With the goal of using the budget process to plan, prioritize, and monitor CC expenditure, the Philippines has mobilized the National Budget Preparation Process to tag climate change expenditures using a common policy-based typology and guidelines. The Philippines has led the development of a standardized CC typology and coding structure for use in the planning, budgeting, monitoring, and reporting of public CC expenditures. On 27 December 2013, the CCC and the Department of Budget and Management (DBM) issued a Joint Memorandum Circular (JMC) 2013-01 mandating government agencies to track their climate change expenditures in their respective 2015 budget submissions using a common framework more popularly known as the CCET.

i. Monitoring of Climate Change General Appropriations Act (GAA) Special Provisions - Pursuant to RA 9729, as amended, and the RA 11260 (General Appropriations Act), CCC was mandated to coordinate, monitor and evaluate climate change adaptation and mitigation in the programs, and action plans of the government, especially the Climate Change-related GAA FY2019 Provisions.

j. People's Survival Fund (PSF) - It is a special fund under the DOF that finances climate change adaptation programs and projects. It was created by RA 10174 as an annual fund intended for local government units and accredited local/community organizations to implement climate change adaptation projects that will better equip vulnerable communities to deal with the impacts of climate change. It supplements the annual appropriations allocated by relevant government agencies and local government units for climate-change-related programs and projects with an amount of PHP 1 billion annually.

197. **International Climate Cooperation.** The Government likewise contributes to international cooperation on climate change action:

a. **United Nations Framework Convention on Climate Change (UNFCCC) 26th Conference of Parties (COP26)** - the Philippines Secretary of Finance and Chairman designate of the Climate Change Commission called for a framework on climate justice where the wealthier (i.e., developed countries) that have emitted and continue to emit the most Greenhouse Gas Emissions (GHGs) accept the pain that pursuing carbon neutrality requires and must pay for the costs, investments, and subsidies needed by the most vulnerable countries to adapt to climate change. The Philippines reaffirmed its commitment to the common but differentiated responsibilities and respective capabilities (CBDR-RC) and to climate justice while demanding for transparency and enhancement of climate finance flows that are demand-driven and respond to the needs of developing countries. Moreover, the Philippine government acknowledges the obligation to push for the implementation of actual and ground-based projects, programs, and activities to meet our Nationally Determined Contributions (NDC) for our people and as part of our global commitment. The Philippines aims to leverage policies in the financial sector to make the environment conducive to sustainable investments to help the Philippines not only mobilise finance for its NDC but to also encourage a green recovery plan for the sectors most affected by the COVID-19 pandemic.

b. **NDC** - The DOF participates in the CCC-led NDC Core Technical Working Group (TWG) to provide oversight and insights on climate finance. The NDC is the heart of the UNFCCC Paris Agreement (PA), the global climate change regime. It serves to guide the country's long-term development plan towards a climate-resilient and low-carbon pathway. Through the NDC, each country communicates the actions that it is willing to take to help achieve the PA goal of limiting global average temperature increase to below 2°C above pre-industrial levels and pursuing efforts to limit it to 1.5°C. It should also promote the country's economic development and industrialization goals while contributing to the global efforts to stabilize the earth's climate.

   The Philippines submitted its first NDC in 2021, which commits to a projected Greenhouse gas emissions reduction and avoidance of 75%. 2.71% is unconditional and 72.29% is conditional, representing the country's ambition for GHG mitigation for the period 2020-2030 for the sectors of agriculture, wastes, industry, transport, and energy. The said commitment is referenced against a projected business-as-usual cumulative economy-wide emission of 3,340.3 MtCO2e for the same period.

   After the Philippines' submission of its first NDC, the process to develop the NDC implementation plan commenced in the identification of Policy and Measures (PAMs) of agencies in the identified priority sectors of the NDC. The UNFCCC defined PAMs as steps taken or to be taken by countries to reduce greenhouse-gas emissions under the UNFCCC and the Kyoto Protocol. In our national setting, PAMs are strategies for avoiding future emissions consistent with our sustainable development aspirations under the NDC;

c. **Green Climate Fund (GCF)** - The GCF is a global fund created to serve the UNFCCC[90] PA and Kyoto Protocol, aiming to deliver equal amounts of funding to mitigation and adaptation. It has a multi-layered approach to mobilize climate finance in the form of investments including grants, loans (concessional), equity, and guarantees. National Designated Authority (NDA) to the GCF, the DOF acts as the core interface between the Government of the Philippines and the GCF;

d. **The Coalition of Finance Ministers for Climate Action (The Coalition)** - The group is organized by the WB; the Coalition helps countries mobilise and align the finance needed to implement their national climate action plans in accordance with the Paris Agreement. The Coalition functions under the Helsinki Principles[91], a set of common principles designed to support and help countries share best practices and experiences on macro, fiscal, and public finance management policies for low-carbon and climate-resilient growth. DOF is a regional champion for Helsinki Principle 4: Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices. Champions host meetings or

[90] The United Nations Framework Convention on Climate Change (UNFCCC) is an international convention, in which its ultimate objectives are to achieve the stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous interference with the climate system.

[91] **Principle 1.** Align our policies and practices with the Paris Agreement commitments; **Principle 2.** Share our experience with each other in order to provide mutual encouragement and promote understanding of policies and practices for climate action; **Principle 3.** Work towards measures that result in effective carbon pricing; **Principle 4.** Take climate change into account in macroeconomic policy, fiscal planning, budgeting, public investment management, and procurement practices; **Principle 5.** Mobilize private sources of climate finance by facilitating investments and the development of the financial sector which support climate mitigation and adaptation; and **Principle 6.** Engage actively in the domestic preparations and implementation of Nationally Determined Contributions (NDCs) submitted under the Paris Agreement.

seminars on the specific topic and pave the way for discussions, progress, and statements at the Ministerial level;

e. **Green Force or the Inter-Agency Technical Working Group for Sustainable Finance (ITSF)** - The Green Force is an intergovernmental body, led by the DOF and BSP, that focuses on supporting and accelerating the development of a green and sustainable economy. The United Kingdom Government, through the ASEAN Low Carbon Energy Programme (ALCEP), is assisting the Philippines in convening the Green Force and implementing its activities.

   The Green Force launched the first-ever **Sustainable Finance Roadmap** in October 2021 to synergise public and private investments towards green projects. This tackles the policy and regulatory gaps in promoting sustainable finance, the implementation of sustainable government initiatives, the facilitation of investments in public infrastructure, and the development of programmes and projects that catalyse sustainable financing in the country.

   Alongside the Roadmap, a **Sustainable Finance Guiding Principles** document was also launched, which shall serve as a taxonomy for the sustainable finance ecosystem in the Philippines. This shall be aligned with the ASEAN Standards for Green Bonds, EU Taxonomy, and so on. The Sustainable Finance Roadmap can facilitate catalytic investments to support NDC implementation and raising ambitions.

f. **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.

g. **Accelerating Climate Investments in the Philippines (ACIP) through the Risk Resiliency Programme (RRP)** - ACIP is an advisory services and analytics project executed by the WB to support the Philippine government to strengthen the enabling environment for key climate adaptation and mitigation investments. ACIP also aims to introduce good practices to contribute to the implementation of the Philippines' NDCs, and increase ambition in the NDC revision cycle. The Readiness for Carbon Pricing project is under Pillar III of ACIP Pillar III covers the socioeconomic and environmental co-benefits of carbon pricing instruments (CPIs); it will harmonise CPIs with current DOE Renewable Energy & Energy Efficiency policies and will facilitate stakeholder engagement;

h. **WB Anti-Single-Use Plastics (ASUP) Assistance** - This provides guidance in the development of appropriate measures and roadmaps in the pursuit of eliminating single-use plastics. The DOF supports the urgent passage of a measure regulating SUPs, as we recognize the necessity of eliminating plastic pollution for a more sustainable environment. Our country has ranked as the world's third-biggest plastics polluter in the oceans. By curbing the use of single-use plastics, every Filipino will do their part in helping save the country and the world's environment. Apart from pushing for a law to ban or regulate single-use plastics, Senate Bill No. (SBN) 2425 is also underway seeking to institutionalize the Extended Producer Responsibility (EPR) and in effect amending Republic Act No. 9003, or the Ecological Solid Waste Management Act. Under the EPR, the obliged companies shall be responsible for making financial contributions to support the collection, recovery, transportation, processing, recycling and disposal of their plastic packaging wastes.

198. **Southeast Asia Disaster Risk Insurance Facility (SEADRIF).** The SEADRIF has been highlighted by ASEAN+3 Finance Ministers and Central Bank Governors as a key initiative to strengthen regional financial resilience. It provides support at the national level to develop and implement comprehensive disaster risk financing strategies and at the regional level to strengthen cooperation for sustainable regional financial solutions. The SEADRIF is currently exploring to issue a public asset insurance product to interested SEADRIF members.

199. **Asia Pacific Economic Cooperation (APEC) Working Group on Disaster Risk Financing Solutions**. To date, the Philippines and Japan are co-chairing the APEC Working Group on Disaster Risk Financing Solutions, which aims to advance policies and implement solutions to strengthen the financial resilience of the APEC economies to natural disasters. The following documents were generated in 2021: 1) Analytics for Financial Risk Management of Critical Infrastructure by the WB and 2) Research on Pandemic Risk Financing and Insurance by OECD/ADB. A workshop, co-organized with the WB on Financial Protection of Critical Infrastructure Services was also held last March 11, 2021.

200. As a developing and climate-vulnerable country, we made it possible to mobilize concrete actions as a contribution to saving the planet from this crisis. We do not linger on hypothetical situations, but ensure we have tangible responses on the ground.

Annex A. List of PPP Contracts Analyzed

No.	Project	Implementing Agency
1	Alien Certificate of Registration Identity Card Project	BI
2	Automatic Fare Collection System	DOTr
3	Bakun A/B and C Hydroelectric Power Plant	NPC
4	Boracay Water Joint-Venture Project	TIEZA
5	Bulacan Bulk Water Supply Project	MWSS
6	Cagayan North International Airport	CEZA
7	Caliraya-Botocan-Kalayaan (CBK) Power Plant Project	NPC
8	Casecnan Multi-Purpose Irrigation and Power Project	NIA
9	Caticlan Airport Development Project	CAAP
10	Cavite-Laguna Expressway	DPWH
11	Civil Registry System - Information Technology Project (Phase II)	PSA
12	Clark International Airport Expansion Project - Engineering, Procurement and Construction	BCDA
13	Clark International Airport Expansion Project - Operation and Maintenance	BCDA
14	Clark Water Supply and Sewerage	CDC
15	Ilijan Natural Gas Combined Cycle Power Plant (1200 MW Natural Gas Combined Cycle Power Project)	NPC
16	Land Titling Computerization Project	LRA
17	Light Rail Transit Line No. 3 (MRT 3)	DOTr
18	LRT Line 1 Cavite Extension Operations and Maintenance	DOTr/LRTA
19	Mactan-Cebu International Airport Passenger Terminal Building	DOTr/MCIAA
20	Manila-Cavite Toll Expressway Project	PRA/TRB
21	Manila-North Expressway (NLEX) Project including NLEX North Harbor Link (Segments 8.1, 8.2, 9, and 10)	PNCC/TRB

No.	Project	Implementing Agency
22	Metro Manila Expressway C6	PNCC/TRB
23	Metro Manila Skyway Stage 1 & 2 Project	PNCC/TRB
24	Metro Manila Skyway Stage 3 Project	PNCC/TRB
25	Mindanao Coal-Fired Thermal Power Plant	NPC
26	MRT Line 7	DOTr
27	Muntinlupa-Cavite Expressway	DPWH
28	MWSS Privatization (East)	MWSS
29	MWSS Privatization (West)	MWSS
30	NAIA Expressway Project	DPWH
31	New Clark City - Mixed Use Industrial Real Estate Development	BCDA
32	New Clark City National Government Administrative Center (NCC NGAC)	BCDA
33	New Manila International Airport	DOTr
34	NLEx-SLEx Connector Road Project	DPWH
35	Pagbilao Coal-Fired Power Plant	NPC
36	Parañaque Integrated Terminal Exchange	DOTr
37	PPP for School Infrastructure Project Phase I - Package A	DepEd
38	PPP for School Infrastructure Project Phase I - Package B	DepEd
39	PPP for School Infrastructure Project Phase I - Package C	DepEd
40	PPP for School Infrastructure Project Phase II - Package A	DepEd
41	PPP for School Infrastructure Project Phase II - Package E	DepEd
42	San Roque Multi-purpose Hydroelectric Powerplant	NPC
43	South Luzon Expressway (SLEX) Toll Roads 1, 2, 3, 4	PNCC/TRB
44	Southern Tagalog Arterial Road (STAR)	DPWH
45	Sual Coal-Fired Thermal Power Plant	NPC
46	Subic Water and Sewerage Project	MWSS

No.	Project	Implementing Agency
47	Taguig City Integrated Terminal Exchange	DOTr
48	Tarlac-Pangasinan-La Union Expressway Project – TPLEX	DPWH

Annex B. Ongoing Financing for COVID-19 Response Projects
in USD million

Project	Description	Amount
Grant Assistance		
ADB COVID-19 Emergency Response Project **(DOH)**	Aims to strengthen the capacity of DOH and other concerned agencies in diagnosing and confirming COVID-19 infections through the procurement of medical supplies and equipment	3.00
ADB Rapid Emergency Supplies Provision **(DOH, DSWD, DND)**[a]	Aims to accelerate the immediate amelioration of the effects of COVID-19 through socio-economic relief by facilitating equitable access to food and essential supplies	5.00
Government of Japan (GOJ) Non-Project Grant Aid for the Provision of Medical Equipment to DOH **(DOH)**[b]	Intends to support the Government's initiatives to combat the ongoing health crisis on COVID-19 through the procurement of laboratory equipment	18.74
GOJ Programme Grant for COVID-19 Crisis Response Emergency Support **(DOH)**[c]	Provision of Cold Chain Transport and Ancillaries which will not only ensure safe and efficient vaccines delivery but also preserve the integrity and quality of vaccines	6.44
WB-EU Second Additional Financing for Philippine Rural Development Project (PRDP-AF2)[d][e]	Aims to increase rural incomes and enhance farm and fishery productivity in targeted areas by supporting smallholder farmers and fisherfolk to increase their marketable surpluses and their access to markets	20.88
Subtotal, Grant Assistance		**54.06**

Project	Description	Amount
Loan Financing		
WB Philippines COVID-19 Emergency Response Project (PCERP) **(DOH)**	Aims to strengthen the Philippines' capacity to prevent, detect and respond to the threat posed by COVID-19, and strengthen national systems for public health preparedness	100.00
WB Support to Parcelization of Lands for Individual Titling Project **(DAR)**	Aims to improve land tenure security and stabilize property rights of agrarian reform beneficiaries through accelerated subdivision of collective Certificate of Land Ownership Award (CLOA) and generation of individual titles	370.00
ADB Health System Enhancement to Address and Limit COVID-19 (HEAL) **(DOH)**	The Project will assist the Philippines health system to scale up the coronavirus disease (COVID-19) response by providing specialized medical equipment and supplies to health facilities which handle COVID-19 cases. It will also establish pandemic subnational reference laboratories and isolation wards for COVID-19 that will help prepare the health system for similar public health threats in the future	125.00
WB Philippines Beneficiary FIRST Social Protection Project **(DSWD)**	Aims to mitigate the impacts of COVID-19 on the welfare of low-income households and strengthen DSWD's social protection delivery systems to be adaptive and efficient	20.00
WB Additional Financing for the KALAHI CIDSS National Community Driven Development Project (NCDDP) **(DSWD)**	Builds on the gains from the NCDDP activities with more focus on interventions that will address the impacts of COVID-19 pandemic on poor communities	300.00
WB Additional Financing for the PCERP **(DOH)***	Aims to save lives and mitigate the impact of the pandemic with its COVID-19 vaccine deployment and immunization program, which will provide free, effective and high-quality vaccines against SARS-CoV-2 to all Filipinos, prioritizing the most-at-risk and most vulnerable populations	500.00
ADB Second HEAL under the Asia Pacific Vaccine Access Facility (HEAL 2) **(DOH)***		400.00
AIIB HEAL 2 **(DOH)***		300.00
WB PRDP-AF2[e]	Aims to increase rural incomes and enhance farm and fishery productivity in targeted areas by supporting smallholder farmers and fisherfolk to increase their marketable surpluses and their access to markets	280.00
ADB HEAL 2 - Additional Financing (HEAL 2-AF)*	Aims to finance the country's additional vaccine requirements in 2022, relating to the COVID-19 third or booster shots for fully vaccinated Filipinos, and the possible expansion or prioritization to other age groups	250.00
AIIB HEAL 2 - AF*		250.00
Subtotal, Loan Financing		**2,895.00**
TOTAL		**2,949.06**

[a]Executed through the issuance of a no-objection letter dated March 27, 2020
[b]Provided through Exchange of Notes dated June 8, 2020; Amount in original currency: JPY2.00 billion; Agent Agreement which will provide basis for procurement was signed on January 21, 2021
[c]Amount in original currency: JPY687 million
[d]WB-IBRD is the administrator of the European Union (EU) Philippine Rural Development Project (PRDP) Single-Donor Trust Fund
[e]The second additional financing for the retrofitting of the PRDP aims to address the threats and impacts of the COVID-19 pandemic by assisting vulnerable farmers and fisherfolk, and contribute to the overall food resiliency of the country
*For vaccine procurement