Fiscal Risks Statement

DEVELOPMENT BUDGET COORDINATION COMMITTEE

2024

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Executive Summary

A. In 2022, the Philippine economy experienced a significant boost, with a remarkable 7.6 percent increase, attributed to the easing of restrictions implemented in different regions within the country, which were initially put in place due to the Coronavirus Disease 2019 (COVID-19) pandemic. Several key factors contributed to the growth of the Philippine economy, including improvements in travel protocols, the resumption of face-to-face classes, and progress in labor market conditions. The Philippine economy is poised to continue its growth trajectory, with domestic demand playing a pivotal role as the primary driver. The government is committed to implementing strategic measures that diversify and expand the Philippines' trade markets while prioritizing the modernization of agriculture and agri-business. These initiatives encompass various approaches akin to farm mechanization, product diversification, and enhanced inter-industry linkages expected to drive growth and development in these sectors.

B. The government's spending performance experienced a significant increase, surpassing the set program targets in 2022. This was primarily driven by the expeditious disbursements from several National Government Agencies (NGAs), rapid fund utilization, and timely payments for educational grants and subsidies, among other factors. In the near term, the government will focus on intensifying support for programs that enhance agricultural productivity and competitiveness. Recognizing the crucial role of agriculture in the economy and its significance in ensuring food security, the government will implement measures to bolster this sector.

C. In the medium term, revenue projections for the Philippine government are anticipated to improve significantly. This positive trend can be attributed to several factors, including implementing remaining tax reform packages from the previous administration and pursuing strategies to enhance the tax system's fairness, efficiency, and environmental sustainability. However, it is crucial to recognize that various risks could potentially impact the revenue outlook. These risks include climate change, the resurgence of COVID-19 infections, elevated inflation, and tighter fiscal space.

D. The National Government (NG) debt-to-GDP ratio is expected to stabilize in the medium term as it hinges upon several key factors, including the assumptions for the deficit, GDP growth, exchange rate dynamics, and inflation. Efficient cash management and prudent debt management have consistently played a vital role in the strategic approach to the government’s borrowing operations. These practices are crucial in anticipating potential reactions to medium-term fiscal developments and other domestic and international incidents that may impact the financial landscape.

E. The Philippines’ external sector remains robust, supported by adequate liquidity buffers that protect the domestic economy in the face of external shocks. The country's external debt structure is characterized by a significant portion of medium- to long-term maturities, contributing to a well-spread and manageable foreign exchange requirement for debt payments.

F. In 2022, the country’s banking system remained sound and stable. The outlook of the Philippine banking system indicates strong potential for double-digit growth in key financial indicators. Additionally, there is a general improvement expected in asset quality and loan quality indicators over the next two years.

G. The Department of Finance (DOF) is committed to upholding its mandate of rigorously pursuing fiscal and policy initiatives that administer financial discipline among Government-Owned and/or Controlled Corporations (GOCCs). However, the NG maintains a vigilant approach to overseeing the financial obligations and commitments of the GOCCs. This proactive monitoring enables the government to assess the risks associated with issuing sovereign guarantees on behalf of the GOCCs. By carefully evaluating each guarantee request, the NG ensures that it can manage potential liabilities effectively.

Macroeconomic Assumptions and Performance

Macroeconomic Performance

The Philippine economy sustained its recovery with a 7.6 percent growth in 2022, higher than the 5.7 percent expansion posted in 2021 and a rebound from the 9.5 percent contraction recorded in 2020.

Despite the rise in COVID-19 cases in January 2022 due to the Omicron variant, the economy grew by 8.0 percent in Q1 2022. This expansion was sustained in Q2 with 7.5 percent real GDP growth as restrictions were eased in several areas in the country. In Q3, GDP growth accelerated by 7.7 percent, benefiting from increased mobility and simplified travel protocols. In Q4, the economy sustained recovery, growing by 7.1 percent due to the resumption of face-to-face classes, improvements in labor market conditions, pent-up demand, and holiday spending. The FY 2022 real GDP growth outturn exceeded the Development Budget Coordination Committee's (DBCC) target of 6.5 to 7.5 percent.[1] However, per capita income remains below the pre-pandemic level.

Among major emerging economies in the region, the Philippines ranked third during the period, next to Malaysia (8.7 percent) and Vietnam (8.0 percent), but faster than India (7.0 percent), Indonesia (5.3 percent), China (3.0 percent), and Thailand (2.6 percent).

Table 1. Philippines: Macroeconomic Performance for 2020-2023 and National Government Budget Assumptions for 2023[a/]
(in percentage points, unless otherwise specified)

Particulars	2020		2021		2022		2023	
	BESF	Actual	BESF	Actual	BESF	Actual	BESF	Actual
Real GDP growth[b/]	6.5-7.5	-9.5	6.5-7.5	5.7	7.0-9.0	7.6	6.5-8.0	6.4 (Q1 2023)
Inflation (2018=100)	2.0-4.0	2.6	2.0-4.0	4.5	2.0-4.0	5.8	2.5-4.5	8.3 (Jan - Mar)
364-day T-bill rate[d/]	5.0-6.0	2.4	3.0-4.5	1.7	2.0-3.5	2.5	3.0-4.5	5.5 (3 Jan - 27 Mar)
6-month LIBOR	1.5-2.5	0.7	1.0-2.0	0.2	0.3-1.3	2.9	3.0-4.0	5.2 (3 Jan - 31 Mar)
Exchange rate *(PhP/US$1)*	51.00-55.00	49.62	50.00-54.00	49.25	48.00-53.00	54.48	51-55	54.86 (3 Jan - 31 Mar)
Dubai crude oil price *(US$/barrel)*	60.00-75.00	42.15	35.00-50.00	68.77	50.00-70.00	97.05	80.00-100.00	79.59 (1 Jan - 31 Mar)
Merchandise exports growth [e/]	6.0	-9.8 [r/]	5.0	12.5 [r/]	6.0	5.9 [p/]	6.0	n.a.
Merchandise imports growth[e/]	8.0	-20.2 [r/]	8.0	30.5 [r/]	10.0	18.5 [p/]	6.0	n.a.

Sources: NEDA, PSA, BTr, and BSP
a/ Macroeconomic assumptions adopted by the 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 target for 2020 was 2000- based, while the actual figure was 2018-based. For 2021-2023, the target and actual figures were 2018-based.
c/ 2012-based average CPI inflation for 2021 is 4.5 percent.
d/ Based on the 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; n.a. – not available

[1] DBCC-approved target as of 5 December 2022

On the expenditure side, the recovery was primarily driven by domestic demand (8.9 percent). This was led by the robust growth in household consumption (8.3 percent) and the sustained double-digit growth in total investments (13.8 percent). Private spending benefited from the easing of restrictions, the resumption of face-to-face classes, and the full reopening of the economy, while construction activities (12.1 percent) supported the growth in investments. Government spending maintained positive growth at 4.9 percent in 2022. Meanwhile, growth in total imports (13.9 percent) outpaced the double-digit expansion in total exports (10.9 percent), resulting in a contraction of net exports (-22.5 percent).

On the production side, all sectors posted expansion in 2022, led by the services sector (9.2 percent), followed by the industry sector (6.5 percent), and agriculture (0.5 percent). The growth in the services sector was largely driven by the expansion in trade (8.7 percent), financial and insurance activities (7.1 percent), and transportation & storage (23.9 percent). Manufacturing (4.9 percent) and construction (12.1 percent) boosted growth in the industry sector. Meanwhile, the paltry performance of the agriculture sector (0.5 percent) highlights the need to strengthen the sector's productivity and resilience against natural disasters and climate change. For FY 2022, most sectors have already returned or exceeded their pre-pandemic (2019) output levels except mining & quarrying, construction, transportation & storage, accommodation & food service, real estate, and other services.

Average headline inflation increased to 5.8 percent in 2022, higher than the previous year and above the government’s target of 2.0-4.0 percent in 2023. Inflation pressures stemmed mainly from higher food and energy prices. Faster price increases of key food items were driven by factors such as the effects of low agricultural productivity and animal diseases (Avian Influenza and African Swine Fever) alongside import restrictions. At the same time, weather-related disturbances, particularly in H2 2022, exacerbated supply-side constraints of key commodities such as fish and vegetables. Meanwhile, energy inflation increased due to higher domestic petroleum pump prices and upward adjustments in electricity rates, reflecting the surge in global crude oil prices. The sustained increase in energy prices led to higher services inflation amid transport fare hikes.

In Q1 2023, average headline inflation rose further to 8.3 percent. Nonetheless, headline inflation decelerated in March 2023 to 7.6 percent from 8.7 percent in January. Inflation gradually eased amid improvements in domestic food supply and the decline in global crude oil prices.

The average 364-day Treasury bill rate in the primary market increased to 2.5 percent in 2022 from 1.7 percent in 2021, settling within the BESF assumption of 2.0-3.5 percent for 2022. In the secondary market, interest rates rose significantly to 5.2 percent at end-2022 from 1.7 percent in end-2021. The BSP monetary policy tightening influenced the uptrend in domestic interest rates, the aggressive increases in the US Fed policy rate, and market uncertainties brought about by the Ukraine-Russia war.

In the first three months of 2023, the average 364-day T-bill rate increased to 5.5 percent, reflecting the continued tightening of BSP’s monetary policy, elevated domestic inflation expectations, as well as higher foreign interest rates as monetary authorities all over the world continued to fight high inflation.

Foreign interest rates trended upward as central banks tightened monetary policy, owing to broadening global inflation pressures amid gradual economic recovery from the pandemic. The average 180-day London Interbank Offered Rate (LIBOR)[2] rose to 2.9 percent in 2022 from 0.2 percent in 2021. In particular, the 180-day LIBOR surged to 5.2 percent in December 2022 from 0.4 percent in January 2022.

The 180-day LIBOR rose further in Q1 2023, averaging 5.2 percent. The elevated foreign interest rates reflected expectations that central banks would continue to adjust policy rates in response to high inflation. In February and March 2023, the US Fed, Bank of England, and European Central Bank raised policy rates by 50 basis points (bps), 75 bps, and 100 bps, respectively.

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

The reimposition of strict quarantine protocols in early 2022, heightened market risk aversion due to the Ukraine-Russia conflict, and the aggressive increases in the US Fed funds rate contributed to the peso depreciation in 2022. The peso-dollar rate averaged at ₱54.48/US$ in 2022, higher than the BESF assumption of ₱48.00-53.00/US$ for 2022 and the 2021 average of ₱49.25/US$. However, the peso started to appreciate in November 2022 amid BSP policy rate adjustments, increasing foreign exchange inflows, particularly from overseas Filipinos' (OF) remittances, and stronger-than-expected economic performance in Q3 and Q4 2022.

The appreciating trend of the peso continued in Q1 2023, averaging ₱54.86/US$, albeit higher relative to the ₱51.53/US$-mean recorded in the same period in 2022. The peso appreciation was influenced by market expectations of a slower pace of monetary policy tightening by the US Fed. On the domestic front, the continued monetary policy tightening of the BSP helped moderate the depreciation pressures on the peso.

Dubai crude oil prices continued to increase in 2022. The average price settled at US$97.05 per barrel in 2022, higher than its previous year's average of US$68.77 per barrel and the BESF assumption range of US$50.00-70.00 per barrel for 2022. The uptrend was due to concerns over potential supply disruptions following Russia's invasion of Ukraine and the impact of imposed sanctions on the Russian oil supply. However, crude oil prices started to ease in H2 2022 following aggressive policy rate increases of several central banks expected to dampen global growth prospects.

Dubai crude oil spot price eased in Q1 2023 compared to full-year 2022 but remained highly volatile amid uncertainties over the external environment. Dubai crude oil prices fell due largely to weaker demand prospects following the monetary policy tightening of major central banks in 2022 and worries of further policy rate increases in 2023 in response to still elevated inflationary pressures. Meanwhile, expectations of higher consumption in China with the country's shift away from a zero-COVID strategy tempered the downtrend in oil prices.

Goods export performance in 2022 was broadly in line with expectations, underpinned mainly by the robust outturn in H1 2022 amid renewed global demand for tech products and firmer commodity prices boosting mineral and agro-based exports. However, the country's export growth momentum weakened starting in Q3 2022 weighed down by external headwinds, including tighter global financial conditions, the slowdown in China, and expected recession in advanced economies. Meanwhile, shipments of imported goods in 2022 outpaced the previous forecast, supported by the elevated commodity prices due to the ongoing Ukraine-Russia conflict and sustained recovery in domestic demand after the easing of pandemic-related disruptions.

Goods exports in 2022 reached US$57.4 billion, up by 5.9 percent from US$54.2 billion in 2021. Electronic products continued to drive growth in 2022, posting an increase of 8.5 percent in 2022. Furthermore, exports of coconut and mineral products increased by 32.1 percent and 8.2 percent, respectively. Exports growth was driven mainly by the higher demand from the top export markets, particularly Singapore, the Netherlands, and South Korea.

Meanwhile, goods imports continue to rise, registering an 18.5 percent growth in 2022 to US$126.8 billion from US$107.0 billion in the previous year. This uptrend was propelled mainly by the 74.6 percent expansion in importing mineral fuels and lubricants. In addition, imports of capital goods, consumer goods, both durable and non-durable, raw materials, and intermediate goods also registered increases of 13.4 percent, 18.6 percent, and 4.8 percent, respectively. The continued import growth was mostly due to higher shipments from Indonesia, South Korea, and China.

The latest BSP assessment as of the 23 March 2023 monetary policy meeting indicates that inflation could settle above target in 2023 and within the 2.0-4.0 percent target in 2024, with risks to the inflation outlook tilted heavily to the upside for both years.[3] Upside risks over the near term include the potential impact of higher transport fares, higher domestic prices of key food items facing supply constraints, increasing electricity rates, and higher-than-expected wage adjustments in 2023. Meanwhile, the impact of a weaker-than-expected global economic recovery remains the primary downside risk.

The BSP supports the whole-of-government action to mitigate the impact of persistent supply-side pressures on inflation. The creation of the Interagency Committee on Inflation and Market Outlook will provide timely recommendations of measures to address supply issues and ease price pressures in essential commodities, especially food, and energy.

Global financial conditions are expected to remain tight as monetary authorities continue to respond to persistent inflation pressures. In particular, the US Fed raised its policy rate by a cumulative 50 bps in February and March 2023, taking the Federal funds rate target range from 4.75 percent to 5.0 percent. Moreover, the US Fed anticipates another 25-bp increase in 2023 before its easing cycle commences in succeeding policy meetings.[4]

Based on the International Monetary Fund (IMF) January 2023 World Economic Outlook (WEO) Update, the balance of risks to global growth prospects for 2023 remained heavily tilted to the downside, with scope for lower growth and higher inflation, but adverse risks are viewed to have moderated since the October 2022 WEO. Persistent high inflation, the protracted Ukraine-Russia conflict, pandemic-related legacies, as well as the most recent collapse of the Silicon Valley Bank (SVB), which can have possible ripple effects in the international financial markets, are among the major risks which cast a shadow on the country's external sector outlook. Nonetheless, the adverse impact of these risks is expected to be of lesser intensity relative to previous estimates (based on the October 2022 IMF WEO).

The IMF likewise forecasts global trade growth to decelerate in 2023 to 2.4 percent, compared to 10.4 percent and 5.4 percent growth in 2021 and 2022, respectively.[5] The anticipated near-term trade slowdown is also consistent with the latest decline in the World Trade Organization's (WTO) Goods Trade Barometer, suggesting that the trade volume indices will likely be below trend until Q1 2023.[6] The United Nations Conference on Trade and Development (UNCTAD) also shares the view that global trade flows will further weaken in 2023 as negative factors appear to outweigh positive factors.[7]

The weakening economic conditions in the U.S. and Europe transmit wide-reaching effects to other economies like the Philippines through the growth channel (growth deceleration and decreased activity), trade channel (lower trade and exports demand), and financial channel (muted capital flows). The transmission effects from weaker growth in the U.S. and Europe pose a challenge for the Philippines' exports sector in 2023, since the U.S. and the European Union accounted for 15.7 percent and 11.7 percent, respectively, of total Philippine exports in 2022.

Nonetheless, China's reopening could likely support the Philippine economy given positive cross-border spillovers from the resumption of international business, the revival of tourism activities, and a pickup in consumer spending. From a trade perspective, possible gains from China's recovery can soften the impact of a broader downturn in global demand for Philippine exports. Based on preliminary Philippine Statistics Authority (PSA) data for 2022, China ranked as the third largest destination of Philippine exports with a share of

[3] As of the 23 March 2023 monetary policy meeting, the BSP's baseline forecasts indicate that headline inflation could average at 6.0 percent in 2023 and at 2.9 percent in 2024.
[4] The median Fed funds rate is projected to settle around 5.1 percent by the end-2023, 4.3 percent by the end-2024, and 3.1 percent by the end-2025 according to the economic projections of the Federal Reserve Board members and Federal Reserve Bank presidents in March 2023.
[5] IMF (2023). "Inflation Peaking amid Low Growth", IMF World Economic (WEO) Outlook Update, January 2023.
[6] WTO Goods Trade Barometer. "Goods barometer declines further, hinting a fourth quarter trade slump." 1 March 2023.
[7] UNCTAD, Global Trade Update, December 2022.

13.9 percent. Although China's growth pick-up in 2023 could provide some positive news for trade activities, high uncertainties remain around how the reopening will shape China's domestic demand and economic recovery.

The less optimistic trade outlook remains subject to a high degree of uncertainty, including the pace and depth of fiscal and monetary policy tightening in major economies and the duration and intensity of the war in Ukraine. The lingering trade tensions between China and the U.S., inducing market fragmentation, continue to add to the uncertainty in the global trading system.

On the upside, the Senate's concurrence to the ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement has further strengthened the country's position as an ideal investment hub in the region by expanding market access, facilitating trade, and aligning our rules and procedures with other participating economies. The recent ratification will enable the Philippines to compete on equal footing with our Association of Southeast Asian Nations (ASEAN) and Asian partners already in RCEP in attracting foreign investments as they capitalize on the shift by multinational corporations to seek alternative locations for their manufacturing sites.

For 2023

The World Bank (WB) raised its global growth forecast to 2.1 percent in 2023, from an earlier estimate of 1.7 percent. This reflects optimism as growth in major economies was stronger than anticipated at the beginning of 2023, with China's rapid economic reopening and the United States' resilient consumption.

For the Philippines, the Development Budget Coordination Committee (DBCC) in its June 9, 2023 meeting, revised its growth target for 2023 at 6.0 to 7.0 percent. This is given external and domestic risks such as the slowdown in advanced economies, geopolitical tensions, aggressive monetary policy tightening in major economies, and persistently high inflation amidst the waning of pent-up demand.

Domestic demand is expected to be the main driver of growth in the near term. Providing targeted and time-bound measures can help temper the impact of elevated prices and preserve the purchasing power of households. Full implementation of recent economic liberalization laws is expected to increase investments in the country. There will also be greater private sector participation in the country's infrastructure program through public-private partnership (PPP) modalities. Timely implementation of the 2023 National Budget will also support growth in the near term. The government's simplified travel protocols will spur tourism activities in the country. On the external front, the government will diversify and expand its trade markets with the ratification of the Regional Comprehensive Economic Partnership (RCEP).

The government will focus on modernizing agriculture and agri-business through farm mechanization, product diversification, and enhanced inter-industry linkages. Manufacturing and construction will drive growth in the industry sector, supported by the adoption of the Industry 4.0 strategy and the infrastructure development program of the government. The services sector will be supported by the recovery of tourism and related sectors, the promotion and expansion of the IT-BPM sector, and the acceleration of e-commerce adoption by micro, small, and medium enterprises (MSMEs).

However, risks to the growth outlook remain. On the domestic front, risks include elevated prices due to inadequate food supply and impact of El Niño, typhoons and natural disasters, waning pent-up demand, the impact of interest rate hikes, tight fiscal space, and limited absorptive capacity of local government units. Moreover, slowdown or recession in major advanced economies, monetary policy normalization, geopolitical trade tensions, and global value chain disruptions can also weigh down growth in the near term. 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.

For 2024

The economy is projected to pick up to 6.5 to 8.0 percent in 2024.[8] Domestic demand is expected to remain robust, supported by easing inflation and improvement in consumer and investor sentiment, while external trade stands to benefit from waning macroeconomic headwinds.

In the medium to long term, sustained high growth involves transforming the economic and social sectors, as well as the underpinning institutions through cross-cutting strategies of digitalization, enhanced physical and digital connectivity, servicification, greater collaboration between the National Government and Local Government Units, and increased partnerships with the private sector. These strategies are elaborated in the Philippine Development Plan 2023-2028.

Risk Mitigating Measures and Initiatives

The Executive Order (EO) No. 14, signed on 27 January 2023, mandates all government agencies and instrumentalities to implement the Philippine Development Plan (PDP) for the period 2023-2028.[9] The PDP 2023-2028 guides the development planning across the bureaucracy to effect medium- to long-term growth by aligning the budget and programs with the strategies and plans identified in the PDP.

On 26 May 2023, the President signed EO No. 28 creating the Inter-Agency Committee on Inflation and Market Outlook (IAC-IMO) which will serve as an advisory body to the Economic Development Group on measures that would keep price movements consistent with the government's inflation target. The growth target for 2023 remains achievable with the timely implementation of the following non-monetary short-term measures to address elevated inflation:

a. Fill the domestic supply gap through timely and adequate importation based on ex-ante supply-demand analysis
b. Use of satellite data collection to complement traditional methods in the supply-demand analysis of key commodities
c. Strategically preposition rice buffer stocks during El Niño
d. Strengthen the implementation of biosecurity and hog repopulation programs by intensifying its current efforts to control the spread of ASF, enhance supply, and help the local industry recover
e. Improve and expand the KADIWA program to directly connect producers and consumers
f. Implement demand management measures, such as energy and water conservation and efficiency measures, to mitigate non-food inflation
g. Fast-track the distribution of targeted subsidies and cash transfers

The EO No. 18, signed on 23 February 2023, mandates all government agencies and instrumentalities to establish or designate a green lane within their offices to expedite and streamline the process and issuance of permits and licenses for strategic investments. Under the EO, strategic investments refer to highly desirable projects, foreign direct investments, and projects or activities under the Strategic Investment Priority Plan. A One-Stop-Action-Center for Strategic Investments (OSAC-SI) will be established to assist interested and potential investors. To encourage investors, processes have been streamlined, such that a permit or license should be issued no longer than three working days for simple transactions and seven working days for complex transactions, and 20 working days for highly-technical transactions.

On 9 March 2023, the NEDA Board confirmed the Committee on Infrastructure (INFRACOM) approval of the new list of Infrastructure Flagship Projects (IFPs). The IFPs are game-changing, transformative, and urgently

[8] DBCC-approved targets as of 9 June 2023.
[9] https://www.officialgazette.gov.ph/downloads/2023/01jan/20230127-EO-14-FRM.pdf (Accessed 27 February 2023)

needed infrastructure projects of national significance that aim to showcase the overall Build-Better-More Program of the government. The list consists of 194 priority projects, of which more than 60 percent (i.e., 119 projects) are geared towards improving physical connectivity, followed by the water resources sector with 44 projects, and then by the agriculture sector with 14 projects. The indicative total investment requirement for the new IFP list is PHP 8.3 trillion. To reduce the fiscal pressure from the IFPs, the PPP modality will be explored for projects that are yet to be approved, under preparation, or for preparation/development.

To enhance the tourism sector, the Department of Tourism (DOT) unveiled the Philippine National Tourism Development Plan (NTDP) of 2023-2028, which aims to capitalize on Filipino culture, heritage, and identity to create a sustainable, resilient, and competitive tourism industry. The DOT would coordinate with local government units in developing tourist sites and creating “high-value” tourism experiences to increase investments in the country. The government aims to reach at least 4.8 million foreign arrivals by the end of 2023.

The recent ratification of the Regional Comprehensive Economic Partnership (RCEP) can support growth through greater trade and investment in strategic sectors. RCEP is a mega-trade deal that provides a framework aimed at further minimizing trade barriers and improving and diversifying market access to goods and services, particularly for key Philippine exports. It is expected to enhance competition and skills development and promote innovation and opportunities for investments. RCEP is set to be implemented within 2023 to usher the Philippines in strengthening its position as an ideal investment hub in the region.

Box 1. Medium-Term Fiscal Framework (MTFF)

Safeguarding the sufficient delivery of social services, protecting people's purchasing power, crafting more jobs, and creating more sustainable communities

The recent economic events and the COVID-19 pandemic overwhelmed the country with macroeconomic challenges and a series of external shocks. As we gear towards economic recovery, the Marcos Administration developed the Medium-Term Fiscal Framework (MTFF) to achieve short-term macro-fiscal stability and stimulate medium-term fiscal sustainability.

The MTFF is a 6-year framework that surpasses political administrations to attain sustainable and consistent policies, programs, and projects, as well as strategies to revert the economy to its high-growth path, while championing inclusivity and resilience, resulting in job creation and poverty reduction. The National Government's (NG) resources are to be consolidated under this framework for easy mobilization and utilization to reap maximum benefits.

Medium-term growth targets and assumptions were reviewed and revised periodically by the Development Budget Coordination Committee (DBCC) to integrate the recent economic developments on domestic and international fronts.

Table 2. MTFF Macroeconomic Assumptions, 2023-2028

Particulars	2023	2024	2025	2026	2027	2028
Real GDP growth rate (%)	6.5-80	6.5-80	6.5-80	6.5-80	6.5-80	6.5-80
Inflation rate (%)	5.0-6.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0
Dubai crude oil price (US$/barrel)	70-90	70-90	60-80	60-80	60-80	60-80
Exchange rate (USD/PHP)	54-57	53-57	53-57	53-57	53-57	53-57
Goods exports growth (%)	1	6	6	6	6	6
Goods imports growth (%)	2	8	8	8	8	8

Source: Development Budget Coordination Committee
Approved on 9 June 2023

The objectives set by the sitting administration were to tackle the issues of inflation and socioeconomic scarring and to continue the reforms laid down by the previous administrations for recovery acceleration and the years that will come after. The government's near-term 8-point socioeconomic agenda aims to safeguard the unrestrained and sufficient delivery of social services and protect the people's purchasing power to further moderate socioeconomic scarring in society. Meanwhile, the medium-term 8-point agenda circles on crafting more job opportunities, heightening the employability of Filipinos by streamlining the job facilitation process, developing sustainable technologies for more green jobs, and creating livable communities.

As the economy grows amidst challenges and external shocks, public spending and financing efforts will carry on to support employment growth and poverty reduction while being consistent with fiscal goals where the NG debt would remain at 60 percent of GDP in the medium term while the deficit would return to its pre-pandemic level of three (3) percent within six years.

For the government to realize its fiscal consolidation efforts, tax policy, and administrative reforms are to be implemented, such as the increase in excise tax on alcohol, e-cigarettes, and tobacco under the Sin Tax Law and other provisions under the Tax Reform for Acceleration and Inclusion (TRAIN). Moreover, in the age of technological advancements, there will be an imposition of value-added tax (VAT) on digital goods and services and an expansion of income tax covering content creators, which will bring about ₱11.7 billion and ₱3.4 billion in additional revenues in 2023, respectively. Meanwhile, in line with the climate change mitigation initiative of the government, an excise tax on single-use plastics (SUPs) will be imposed, aiding the government to generate around ₱1.0 billion in 2023.

The MTFF will keep working on the remaining packages of the Comprehensive Tax Reform Program of the Duterte administration, the Real Property and Assessment Reform Act, and the Passive Income and Financial Intermediary Taxation Act, which will help the fiscal position of the general government and simplify the taxation of financial services and passive income. The Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) will pursue efficient and accessible tax conformity by utilizing digitalization and modernization of its information and processing systems.

In pursuit of the government's implementation of infrastructure and socio-economic development programs, the disbursement will continue to increase from ₱5.402 trillion or 20.7 percent of GDP in 2023 to ₱7.712 trillion or 20.6 percent of GDP in 2028. An improvement in productive spending and alignment of budget priorities anchored on the 8-point socioeconomic agendas for the near- and medium-terms will support attaining the target of a 5.0 to 6.0 percent infrastructure spending-to-GDP ratio between 2023 and 2028 annually. The Budget Modernization Bill (BMB) will rationalize and reduce unwarranted spending by institutionalizing Public Financial Management (PFM) initiatives. The government will maximize digitalization to strengthen the monitoring and reporting of financial and fiscal data.

Government pension reform bills will be prioritized to mitigate the fiscal risk caused by inflating pension requirements. The Military and Uniformed Personnel (MUP) Pension Act may be re-filed while the integrated and extensive private sector participation in infrastructure (IPSPI), rightsizing of the government structures, and localized investment and growth programs will also be pursued. Moreover, other fiscal measures were identified to supplement the objectives of MTFF, such as the charter amendments of the Philippine Crop Insurance Corporation (PCIC) to protect the farmers from losses due to natural calamities, building a sustainable corporate pension system through the Capital Market Development Act (CMDA) to mobilize long-term domestic savings and improve financial sector's liquidity, and developing well-structured and bankable PPP projects consistent with the country's development goals and climate agenda through the Public-Private Partnership (PPP) bill, to name a few.

In reiteration, the government will ensure a sustainable debt level through its fiscal consolidation strategy of bringing the deficit to its pre-pandemic figures. The deficit will progressively decline by at least 1.0 percent every year at 6.1 percent of GDP in 2023 to 3.0 percent of GDP in 2028, while the debt-to-GDP ratio is seen to stabilize in 2022 and 2023, and decline in 2024.

No Filipino is left behind – the long-term socioeconomic vision for a thriving society that fastens the MTFF and the Philippine Development Plan (PDP) 2023-2028. The government will continue its prudent macroeconomic and fiscal management in highlighting expenditures that cover nation-building and serve as the foundation of the MTFF. The macroeconomic policy will remain affixed on inclusive and sustainable economic growth. The 2023 to 2025 budget and appropriations will focus on sectors that will drive the economy closer to attaining the country's sustainable development goals (SDGs), focusing on the economy returning to its pre-pandemic growth trajectory, fast poverty reduction, and mitigating socioeconomic inequality in the Philippine society.

Expenditure Performance

As of end-December 2022, the NG spending closed at ₱5,159.6 billion, higher by ₱484.0 billion or 10.4 percent YoY, and 4.1 percent or ₱205 billion higher than the ₱4,954.6 billion program. The 2022 disbursement performance was driven mainly by higher transfers to LGUs (₱210.6 billion or 23.6 percent YoY), infrastructure and other capital outlays (₱120.2 billion or 13.4 percent YoY), and Personnel Services (PS) (₱92 billion or 7.1 percent YoY).

The growth in the combined allotment and capital transfers to LGUs was attributed to higher National Tax Allocation (NTA) share, following the implementation of the Supreme Court Ruling on the Mandanas-Garcia Case.

The expansion in infrastructure and other capital outlays was driven by higher spending of (1) the DPWH due to efficiency measures in the implementation of infrastructure projects, (2) the DOTr as direct payments were made by development partners for the foreign-assisted rail transport projects, and (3) the DND for the Revised AFP Modernization Program.

Meanwhile, the growth in PS expenditures was mainly attributed to the implementation of the third tranche of Salary Standardization Law V, higher pension and retirement claims of the DND and the DILG, the grant of One Covid-19 Allowance and Health Emergency Allowance, the filling-up of unfilled positions in various agencies, and payment of Service Recognition Incentive and other personnel benefits.

The spending performance was higher than the program due to the faster disbursements of the DPWH and the DOTr, faster fund utilization and payments made for educational grants and subsidies, releases from the Unprogrammed Appropriations, and PS expenditures, among others.

Inflation Subsidies

To help Filipinos cope with the effects of global crises, the government provided financial assistance to those who are most vulnerable to the rising costs of fuel and other basic commodities. In particular, the DBM released a total of ₱19.4 billion in 2022 for cash subsidies to 9.8 million identified beneficiaries from the poorest 50 percent of the country's population.

In addition, the DBM has also released a total of ₱10.0 billion in 2022 for the implementation of the DOTr's Fuel Subsidy Program (₱2.1 billion), and the PUV Service Contracting (₱7.4 billion), as well as the Department of Agriculture (DA)'s Fuel Discount Program (₱500.0 million), to provide targeted assistance to affected sectors and cushion the impact of the consecutive oil price hikes.

Under the Fuel Subsidy Program of the DOTr, the qualified jeepney drivers, drivers of UV express, minibusses, buses, shuttle services, taxis, tricycles, and other full-time ride-hailing (e.g., transport network vehicle service (TNVS) and motorcycle taxis) and delivery services nationwide, received financial assistance amounting to ₱6,500.

Meanwhile, under the Fuel Discount Program of the DA, the qualified farmers and fisherfolk who own agricultural or fishery machinery, either individually or through organizations, were provided discounts on their purchase of fuel products through a fuel discount card (FDC). The recipients can present their FDCs to the contracted oil companies or gas stations and claim a maximum amount of ₱3,000 fuel discount.[10]

Outlook for 2023

The 2023 National Budget of ₱5.268 trillion is equivalent to 21.9 percent of GDP, and 4.9 percent higher than the FY 2022 budget of ₱5.024 trillion.

The FY 2023 National Budget is anchored on the theme *"Agenda for Prosperity: Economic Transformation Towards Inclusivity and Sustainability".* This agenda includes the achievement of the overarching goals outlined in the Medium-Term Fiscal Framework (MTFF) as follows:

a. 6.5 to 7.5 percent real GDP growth in 2022 and 6.5 to 8.0 percent real GDP growth annually between 2023 to 2028;
b. 9.0 percent or single-digit poverty rate by 2028;
c. 3.0 percent National Government (NG) deficit-to-GDP ratio by 2028;
d. Less than 60.0 percent NG debt-to-GDP ratio by 2025; and
e. Attainment of upper-middle-income status (i.e., at least US$4,256.00 gross national income (GNI) per capita).

The spending priorities of the Marcos Jr. administration's first National Budget are the starting point of the 8-Point Socioeconomic Agenda in the near term. This aims to address the immediate concerns of the country, such as protecting the purchasing power of families and consumers and mitigating the economic scarring from the COVID-19 pandemic. The indicative budgetary allocation under each of the 8-point socioeconomic agenda are as follows: Improved Transportation *(₱976.5 billion)*; Education *(₱778.6 billion)*; Health Care *(₱342.4 billion)*; Social Services *(₱239.1 billion)*; Food Security *(₱174.0 billion)*; Sound Fiscal Management *(₱21.6 billion)*; Bureaucratic Efficiency *(₱15.6 billion)*; and Affordable and Clean Energy *(₱10.2 billion)*.

The allotment releases as of end-April 2023 reached ₱4,518.2 billion, or 85.8 percent of the total ₱5,268.0 billion programmed for the year. Meanwhile, the NG spending for the same period stood at ₱1,463.5 billion, higher by ₱19.2 billion or 1.3 percent YoY. This was mainly driven by the accelerated implementation of various infrastructure projects of the DPWH, direct payments concerning the foreign-assisted rail projects of the DOTr, as well as the releases for health emergency allowance of non-plantilla staff and other banner health programs of the DOH, the Free Higher Education program of SUCs, and the transfer of ₱15.0 billion to the Coconut Farmers and Industry Trust Fund. The spending is expected to accelerate in the coming months with the release of various subsidies for the National Health Insurance Program, and for the implementation of the Murang Kuryente Act, as well as the payment for completed/partially completed infrastructure projects of the DPWH and the rail transport foreign-assisted projects of the DOTr, among others.[11]

[10]*See* DBM Releases P3.0 Billion for Fuel Subsidy and Discount Programs, *available at* https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2102-dbm-releases-p3-0-billion-for-fuel-subsidy-and-discount-programs (last accessed March 28, 2023).
[11]Department of Budget and Management (DBM), National Government Disbursement Performance Report (as of April 2023), *available at* https://www.dbm.gov.ph/wp-content/uploads/DBCC/2023/NG-Disbursements_April%202023_for%20posting.pdf (last accessed July 10, 2023).

Sources of Fiscal Risks / Risk Mitigating Measures

Concerns on Underspending/Overspending

Although there are no immediate concerns about possible underspending or overspending that would warrant alarm or intervention, the National Government shall remain vigilant in monitoring the disbursement program and shall continue to advocate for reforms aimed at improving government accountability over fiscal resources. Underspending or overspending depends on several factors such as, but not limited to, the efficiency of agencies in implementing their programs and projects, and the occurrence of risk events (e.g., weather disturbances, external developments, supply chain disruptions, among others). Regular monitoring of agency outcomes and finetuning of agency proposals consistent with budget priorities and absorptive capacities work in tandem to mitigate underspending or overspending. Moreover, various reforms are also being pursued to further improve budget transparency, openness, accountability, and reliability.

The MTFF was designed and adopted by the Marcos Jr. Administration to attain short-term macro-fiscal stability while the country pursues economic recovery and promotes medium-term fiscal sustainability. Under the MTFF, the NG deficit to GDP ratio will be reduced to 3.0 percent by 2028. In terms of expenditures, this will be supported through improved spending efficiency and alignment of budget priorities with the Administration's development agenda.

The Progressive Budgeting for Better and Modernized (PBBM) Governance Bill is among the priority legislative measures of the Marcos, Jr. Administration[12], which endeavors to increase the government's accountability to the people through improving its ability to deliver direct, immediate, and substantial services. The Bill, currently pending in the House of Representatives, seeks to institutionalize various structural reforms, some of which are currently being implemented by the NG as a matter of practice, as follows:

a. Development and whole of government adoption of an Integrated Financial Management Information System (IFMIS);
b. Oversight of the Bureau of the Treasury (BTr) on government bank accounts through the Treasury Single Account (TSA);
c. Implementation of the Cash Budgeting System (CBS);
d. Embedding of public participation in the budgeting process;
e. The upholding of fiscal responsibility principles; and
f. Oversight of internal audit standards.

Likewise, the National Government Rightsizing Program (NGRP) Bill is seen to support public service delivery through the streamlining of agency systems and processes.[13] The NGRP envisages a leaner and more responsive government workforce via streamlining National Government agencies through regularization, merging, restructuring, abolition, or transfer thereof. Ultimately, these measures are seen to foster the efficiency of the bureaucracy while extending the productive use of government resources in its budget. These resources from the rationalization program, for instance, may be used for the funding of the Administration's development priorities consistent with Bill's policy to improve public service delivery and maximize the crucial role of the public sector in national development. The Bill has been approved on the third reading by the House of Representatives on 14 March 2023 and is currently pending at the Senate for its deliberation.

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[12] *See* Jose Cielito Reganit, ***House goes into Lenten break; 23 of 31 PBBM priority bills OK'd***, Philippine News Agency, 22 March 2023, *available at* https://www.pna.gov.ph/articles/1197923 (last accessed 28 March 2023).

[13] *See* Department of Budget and Management Statement on the Passage of House Bill No. 7240 in the House of Representatives, *available at* https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2649-dbm-statement-on-the-passage-of-house-bill-no-7240-in-the-house-of-representatives#:~:text=The%20National%20Government%20Rightsizing%20Program,create%20a%20more%20efficient%20bureaucracy (last accessed 28 March 2023).

Based on the 2021 actuarial study conducted by the Government Service Insurance System (GSIS), total unfunded liabilities of the current military and uniformed personnel (MUP) pension system will amount to a staggering ₱9.6 trillion under the status quo (i.e., no reforms). The issues concerning the retirement and pension requirements of MUP have long been considered a substantial risk to the fiscal position, and extensive discussions in past iterations of the study have called for the urgency for its reform. The risks are deemed as neither remote nor probable, considering that under the current system, pension requirements for MUPs are funded directly by the national budget, necessarily linking its funding to government financing and any fiscal and/or economic shocks affecting the latter. Reforms to the pension system, therefore, must not only provide an answer for unfunded liabilities and possible arrearages but also account for the sustainability of the pension system in the long term.

In recognition thereof, the Marcos, Jr. Administration has designated the MUP Pension Reform as among its priority legislative agenda. But as of 10 July 2023, the filed bills remain pending in the various committees of the two Houses. Under the Nineteenth (19th) Congress, twelve (12) bills[14] have been filed in the House of Representatives and eight (8) bills[15] in the Senate of the Philippines to take up the task of legislating the much-needed reform. Yet despite such designation, most, if not all, of the bills, remain pending in the various committees of the two Houses (viz., (1) House Committee on National Defense and Security; and (2) Senate Committees on National Defense and Security, Peace, Unification, and Reconciliation; and Finance).

Meanwhile, the Administration has been in the process of drafting its version of the MUP Pension Reform Bill. As of 10 July 2023, the Administration's version has not yet been finalized and is still undergoing consultations with various stakeholders; however, the following are its salient features vis-à-vis the existing pension scheme.

Table 3. Salient Features of draft Administrative Bill of the MUP Pension Reform[16]

Features of the Retirement Scheme	Existing Pension Scheme	Admin Version
Age of Compulsory Retirement	Upon reaching the age of 56, or 30 years in active service, whichever comes later For AFP, varying compulsory retirement age per Sec 6 of RA No. 11709	*Retain existing pension scheme.*
Age of Optional Retirement	With at least 20 years in active service	*Retain existing pension scheme.*
Pensionable Age (minimum age to receive the monthly pension)	No minimum pensionable age	56 years old.
Rank after retirement	Retire one rank higher, i.e., computation of retirement benefits is based on one rank higher For AFP, the computation shall be based on the current rank upon retirement for new entrants	Computation shall be based on the current rank upon retirement.
Indexation of Pension	Automatic pension adjustment to the base pay of active personnel.	Discontinuation of automatic indexation for existing pensioners,

[14] viz., H.B. Nos. 7, 667, 1825, 2015, 2556, 3592, 3728, 4084, 4238, 7511, and 8150
[15] viz., S.B. Nos. 59, 284, 683, 700, 910, 911, 913, and 1480.
[16] Subject to change pending finalization and subsequent endorsement of the Administration's version to Congress.

<table>
<tr><td></td><td></td><td>those in the active service, and new entrants. The MUP Trust Fund Committee may adjust or increase pension up to 1.5 percent within a given year.</td></tr>
<tr><td>Salary Adjustments</td><td>No cap on salary adjustments of active MUP.</td><td>Capped salary adjustments of MUPs to 5 percent within a given year to ensure the fiscal sustainability of the MUP pension system.</td></tr>
<tr><td>Mandatory Contribution</td><td>None.</td><td>Mandatory contributions computed on the base pay and longevity pay of active MUP and new entrants:
<table>
<tr><th>Period</th><th>Employee Share</th><th>Employer Share</th></tr>
<tr><td>First three (3) years</td><td>5%</td><td>16%</td></tr>
<tr><td>Next three (3) years</td><td>7%</td><td>14%</td></tr>
<tr><td>Every year thereafter</td><td>9%</td><td>12%</td></tr>
</table>
Employee and NG share will be used to fund the MUP pension benefits.</td></tr>
</table>

The passage of a bill reforming the MUP Pension System, with all the necessary improvements, is seen to ease future requirements and conserve fiscal resources that would have been allocated to pension requirements in the absence of such a bill. These fiscal resources could instead be utilized for the funding of other priority programs of the government, consistent with the Medium-Term Fiscal Framework/s in force by then.

Reviewing the Implementation of the Full Devolution Policy

Following the gradual re-opening of the economy after the lockdown period, there has been a marked improvement in economic conditions, leading to increased revenue collections for the national government in FY 2021.[17] The increase in revenue has translated to higher National Tax Allotment (NTA) shares of Local Government Units (LGUs) for FY 2024 amounting to ₱871.38 billion. This figure reflects a growth of 6.2 percent, equivalent to ₱51.11 billion when compared to the FY 2023 NTA shares of LGUs.[18] The determination of FY 2024 NTA is consistent with the Local Government Code (LGC) of 1991, and in compliance with the Supreme Court ruling in the Mandanas-Garcia case.

While the resources of LGUs have increased for FY 2024, they may still face challenges in implementing devolved basic services due to insufficient technical capacities, which could lead to service delivery gaps. Hence, the provision of continuous capacity development interventions for the LGUs by the National Government Agencies (NGAs), and the formulation of a long-term capacity development strategy and program for the LGUs shall continue to be pursued. This is to enable the LGUs to assume and effectively perform the devolved functions and services and to ensure the LGUs' capacity to fund and sustain the delivery of such on their own.

Recognizing the issue of varying current levels of technical and financial capacity of the LGUs and various representations from the NGAs concerned, the Marcos Jr. Administration directed the oversight agencies, particularly the National Economic and Development Authority (NEDA) to revisit and further study the

[17] Section 284 of the LGC provides that LGUs shall have a 40.0 percent share in the national taxes based on the collections during the third fiscal year preceding the budget year.
[18] Based on Local Budget Memorandum (LBM) No. 87, dated 09 June 2023.

implementation of Executive Order (EO) No. 138[19] and possible amendments moving forward. The study shall review the assignment of responsibility and functions between the NG and the LGUs to determine if there will be a need to extend the initial devolution transition period of FY 2022-2024 and to ensure the effective and efficient delivery of public services.

Upon completion of the aforesaid study/review, the NGAs concerned, the LGUs, and other stakeholders shall be accordingly updated and guided on the policies governing the full devolution effort. Considering the extension of the transition period and possible changes in the priorities of newly-elected local officials, the submitted Devolution Transition Plans (DTPs) of NGAs and LGUs might need to be recalibrated/ revisited once the amendatory EO has been issued.

Inflationary Pressures

Upside risks to the inflation outlook are seen to persist over the near term, exposing the poor and marginalized sectors to socioeconomic vulnerabilities.[20] From global supply chain disruptions due to geopolitical tensions and/or possible resurgences of COVID-19 to adverse weather conditions and higher factor input prices, inflationary pressures work to erode the purchasing power of Filipinos. These inflationary pressures expose those along or below the poverty line and those in marginalized sectors to socioeconomic vulnerabilities, which include but are not limited to, malnutrition and lower public health outcomes, as well as loss in opportunities for gainful employment and marked decreases in living standards.[21]

As aforementioned, targeted subsidies to vulnerable sectors such as indigents, poor families and households, social pensioners, the public transport sector, and the agriculture and fisheries sectors, have been provided in 2022.[22]

Moving forward, the government shall intensify support for programs aimed at improving agricultural productivity and competitiveness while providing targeted subsidies to vulnerable groups and sectors. In 2023, the government shall strengthen efforts to improve agricultural productivity and competitiveness and ensure food security for all. To this end, around ₱97.4 billion has been appropriated in 2023 for the implementation of the National Programs for Rice, Corn, High-Value Crops Development, Livestock, and Fisheries. In addition, utilization of the Agricultural Competitiveness Enhancement Fund (ACEF) provided under R.A. No. 10848 and the Rice Competitiveness Enhancement Fund (RCEF) provided under R.A. No. 11203, shall also support these ends. Ultimately, these programs, alongside monetary measures implemented by the BSP and other fiscal policy interventions (e.g., issuance of EO No. 10, s. 2022[23] and EO No. 13, s. 2023[24]) are aimed to ease food inflation in the long term as part of the whole-of-government approach to combatting inflation.

Nevertheless, targeted subsidies will not necessarily be discontinued but shall be resorted to in consideration with utmost prudence and consideration of the government's limited fiscal space and counterpart consolidation strategy, the urgency and imminence of the perceived risks, and the prevailing circumstances of the affected sectors then. Consistent thereto, the 2023 General Appropriations Act allocates around ₱5.3 billion for targeted subsidies to the transport sector and the agriculture and fisheries sector, as follows:

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[19] Executive Order No. 138 "Full devolution of Certain Functions of the Executive Branch to Local Governments, Creation of a Committee on Devolution, and for Other Purposes" dated 1 June 2021

[20] May be updated/revised in light of BSP and NEDA write-ups.

[21] See Chapter 3: Reduce Vulnerabilities and Protect Purchasing Power, Philippine Development Plan 2023-2028, available at https://pdp.neda.gov.ph/philippine-development-plan-2023-2028/ (last accessed 28 March 2023).

[22] See Items 3 to 4 on inflation subsidies in 2022.

[23] Effective 5 January 2023, Extending the Temporary Modification of Rates of Import Duty on Various Products under Section 1611 of Republic Act No. 10863, otherwise known as the "Customs Modernization and Tariff Act", *available at* https://drive.google.com/file/d/16a0gkA-rXSD8XrZoCapQ8dt29rJytQMF/view (last accessed 29 March 2023).

[24] Effective 21 January 2023, Maintaining the Temporary Modification of Rates of Import Duty on Certain Agricultural Products under Section 1611 of Republic Act No. 10863, otherwise known as the "Customs Modernization and Tariff Act", *available at* https://drive.google.com/file/d/1ZN4ODMgme7D7GTzAG8oraL01sIW5Cb85/view (last accessed 29 March 2023).

a. Fuel Subsidy Program (₱3.0 billion). – Financial assistance/fuel vouchers to qualified public utility vehicle (PUV), taxi, tricycle, and full-time ride-hailing and delivery services drivers nationwide as validated by the LTFRB, when the average Dubai crude oil price based on Mean of Platts Singapore for three (3) months reaches or exceeds Eighty Dollars (US$80) per barrel.

b. PUV Service Contracting Program (₱1.3 billion). – Implementation of service contracting in partnership with priority LGUs to facilitate broad engagement of public transport cooperatives, associations, or corporations operating within their jurisdiction.

c. Fuel Assistance to Farmers (₱510.4 million). – Fuel assistance to farmers, inclusive of the operating expense incurred in the distribution, when the average Dubai crude oil price based on Mean of Platts Singapore for three (3) months reaches or exceeds Eighty Dollars (US$80) per barrel. The farmer beneficiary owns or rents agricultural machinery and is listed in the Registry System for the Basic Sectors in Agriculture (RSBSA).

d. Fuel Assistance to Fisherfolks (₱489.6 million). – Fuel assistance to fisherfolks, inclusive of the operating expense incurred in the distribution, when the average Dubai crude oil price based on Mean of Platts Singapore for three (3) months reaches or exceeds Eighty Dollars (US$80) per barrel. A fisherfolk beneficiary owns and operates a fishing vessel individually or through a fisherfolk organization, cooperative, or association, and is listed in the RSBSA. Further, fishing vessels are listed in the registry system of the BFAR/LGU.

e. Targeted Cash Transfer Program – While there are no provisions for the Targeted Cash Transfer Program in the 2023 GAA, it[25] has been revived in May 2023, after the DBM approved the release of a Special Allotment Release Order (SARO) with a total amount of around ₱7.7 billion which will benefit around 7.6 million beneficiaries.

Maharlika Investment Fund

The Maharlika Investment Fund (MIF) aims to promote economic development and attain NG's priority plans through the pooling of funds from select units in the public sector and investing them on a strategic and commercial basis. In its enrolled bill version which was submitted to the OP on July 4, 2023, after the Bicameral Conference held on May 31, 2023, the Maharlika Investment Corporation (MIC) shall source its capitalization requirements from the Land Bank of the Philippines (LBP), the Development Bank of the Philippines (DBP), and the NG (i.e., annual contributions from the dividends of the BSP; income of the Philippine Amusement and Gaming Corporation (PAGCOR); other sources such as royalties and/or special assessments based on the fiscal regime; and privatization proceeds). It is underscored that the bill absolutely prohibits government agencies and GOCCs providing for the social security and public health insurance of government employees, private sector workers and employees, and other sectors and subsectors (e.g., SSS, GSIS, PhilHealth, Pag-IBIG Fund, OWWA, and PVAO Pension Fund, among others) from contributing to the capitalization of the MIC.

Although the ends sought to be achieved by the creation of the MIF are broadly consistent with the Marcos, Jr. Administration's Agenda for Prosperity and its 8-Point Socioeconomic Agenda, it must be noted that the MIF is exposed to various risks which are inherent to Sovereign Wealth Funds (SWFs) in general, such as economic risks, political risks, currency risks, and environmental, social, and governance (ESG) risks.[26] As capitalization

[25] Per Department of Social Welfare and Development (DSWD) Memorandum Circular No. 09, s. 2022, the dole-out of cash transfers to qualified beneficiaries was triggered by the sudden uptick in the prices of fuel and other commodities and is intended to alleviate the adverse impact of such price increases on the poorest 50 percent of Filipino households. Beneficiaries were entitled to cash grants amounting to ₱500.00 per month for a period of six (6) months.

[26] *See* Abdullah Al-Hassan, Michael Papaioannou, Martin Skancke, and Cheng Ching Sung, *Sovereign Wealth Funds: Aspects of Governance Structures and Investment Management* (2013), IMF Working Paper No. 2013/231, pp. 22-25, *available at* https://www.imf.org/external/pubs/ft/wp/2013/wp13231.pdf (last accessed March 31, 2023); *and also* Milken Institute, *Best Practices of Sovereign Wealth Funds: The Case for The Philippines* (2023), *available at* https://milkeninstitute.org/sites/default/files/2023-02/Best_Practices_of_Sovereign_Wealth_Funds-The_Case_for_The_Philippines.pdf (last accessed 31 March 2023).

requirements are financed primarily by units in the public sector, which are themselves supported to some degree by the NG, actualized risks may ultimately affect the integrity of its fiscal position. Thus, the MIF's managers should ensure that policies and procedures are well-defined and internalized. More importantly, risk management shall be established from identification to reporting, verification, and auditing.[27]

The provisions of organizing a Risk Management Unit and creating an Advisory Body are seen to improve the MIF's capacity to anticipate, prepare for, and manage internal and external risks to the fund. The enacted MIF Law provides standards for the selection of the members of the Risk Management Unit as well as the duties of the MIF. Similarly, the MIF Charter defines the powers and functions of the Advisory Body, which shall be composed of the Secretary of Budget and Management, the Secretary of Economic and Development, and the Treasurer of the Philippines. While ideally, these provisions are seen to support the risk management capabilities of the MIF, regard must be made to ensure that the standards and duties provided therein are not merely perfunctory, but should be complied with competently and in good faith, considering that the funds therein are public.

Revenue Performance

The National Government incurred a deficit of ₱1.61 trillion in 2022. However, this is 3.4 percent lower than the deficit in 2021, as expenditures grew at a slower pace than revenues. As a percent of GDP, the fiscal deficit decreased to 7.3 percent in 2022, or 1.3 percentage points lower than the 2021 level.

Total revenue collection grew by 18.0 percent year-on-year (YoY) to reach ₱3.55 trillion. As a percent of GDP, it improved to 16.1 percent from 15.5 percent in 2021. More than half or 66 percent of total revenue collection is from the Bureau of Internal Revenue (BIR), while almost a quarter, or 24 percent can be attributed to the Bureau of Customs (BOC). The higher revenue effort is largely due to the 34.0 percent YoY increase in the BOC collections. Meanwhile, expenditures rose by 10.4 percent YoY, accounting for 23.4 percent of GDP from 24.1 percent in 2021.

Tax revenues amounted to ₱3.22 trillion, 17.4 percent or ₱477.59 billion increase from the 2021 level. Tax revenues as a percentage of GDP improved by 0.5 percentage points to reach 14.6 percent in 2022 from 14.1 percent in 2021.

BIR collections for 2022 amounted to ₱2.34 trillion, higher by 12.4 percent compared to the 2021 collection of ₱2.08 trillion. Personal income tax and value-added tax drove the increase in revenue collections as it grew by 30.2 percent and 21.9 percent YoY, respectively.[28] This reflects strong growth momentum as employment improved and with the easing of domestic COVID-19 restrictions that allowed the rebound of household consumption spending or the so-called "revenge spending".

The BOC achieved an annual record-high in 2022, as it reached ₱862.42 billion, ₱218.86 billion or 34.0 percent more than its collection in 2021[29]. The better-than-expected revenue collection was due to better tax administration, improved valuation, higher oil prices in the world market, and peso depreciation, among others.

One example of the impact of better tax administration and improved valuation was the implementation of the Computer-Aided Risk Management System (CARMS), which determines import transactions that pose revenue-related red flags arising from undervaluation of customs value and other components of dutiable value and landed cost. With CARMs, the Post-Clearance Audit Group (PCAG) was able to collect ₱1.84 billion in deficient customs duties, taxes, penalties, and interests, exceeding its 2021 collection of ₱1.52 billion by 21.0 percent and its target collection of ₱1.58 billion by 16.0 percent.

[27] *Ibid.*
[28] Preliminary. Based on the latest available data as of March 31, 2023
[29]BOC. (13 January 2023). *BOC Garners Highest Annual Revenue Collection in History*. *https://customs.gov.ph/boc-port-of-naia-destroys-1-7m-worth-of-unsafe-goods/#:~:text=The%202022%20revenue%20collection%20performance,per%20the%20BOC%20Financial%20Service.*

Moreover, additional revenues from rice tariff collections and public auctions of overstaying cargoes, seized, forfeited, and abandoned containers boosted the revenue performance of the Bureau in 2022.

Non-tax collections, excluding privatization and grants, reached ₱322.44 billion in 2022 or ₱60.30 billion higher than in 2021. Collections of the Bureau of Treasury (BTr) registered a 23.5 percent increase in 2022 compared to 2021 collections. The BTr's robust collection was largely driven by higher remittances of dividends on shares of stocks, income from Bond Sinking Fund investments, and interest on NG deposits[30]. Total privatization and grant proceeds, on the other hand, amounted to ₱2.75 billion, higher by 307.4 percent compared with the 2021 level of ₱676.0 million.

Outlook for 2023-2025

After more than two years of strict COVID-19 restrictions, the Philippines grew by 7.6 percent YoY in 2022 due to increased economic activity from pent-up demand or the so-called "revenge spending". As the economy fully reopened, the easing of mobility restrictions has created a positive economic outlook, stimulating economic activity and creating more jobs amid an elevated inflation rate. Despite exceeding the official growth target of 6.5 to 7.5 percent of GDP in 2022, the growth target for 2023 is projected to be within 6.0 to 7.0 percent. Meanwhile, the growth forecast for 2024 to 2028 is expected to be within 6.5 to 8.0 percent[31]. Think-tank Philippine Institute for Development Studies projected economic growth to weaken in 2023 due to the deterioration of the global economic environment. World Bank also reported that fading of pent-up demand, elevated inflation, and a higher interest rate environment – that will temper domestic demand – will likely slow the growth momentum in 2023[32]. The research arm of some credit rating agencies[33] also claimed a slowdown in the Philippine economy in 2023, and more so in 2024 before picking up pace again in 2025[34]. The latest outlook report of Moody's Analytics stated that China will see a rebound that will boost trade and tourism in the region, translating to elevated inflation that may not be easily contained. Under this scenario, the Philippines' GDP is forecasted to grow by 7.1 percent in 2023, slower than the 7.6 percent recorded in 2022. Central banks in the region, including the BSP, are expected to end their tightening cycles during the first quarter of 2023 and to hold rates steady through the year. However, if the BSP were to raise policy interest rates later in the year and inflation further rises, economic growth could slow down. On the other hand, Fitch Rating attributed its projected slower growth for 2023 GDP mainly to inflation, monetary tightening of the central bank, and the sluggish outlook on exports.

Revenue projections in the medium term are expected to reach ₱3.7 trillion in 2023 to ₱6.6 trillion in 2028 as the remaining tax reform packages from the previous administration and strategies to enhance the fairness and efficiency of our tax system and promote environmental sustainability to address climate change ensure environmental sustainability are being pursued.

Tax revenues are expected to reach ₱3.54 trillion or 14.4 percent of GDP in 2023, ₱4.00 trillion or 14.9 percent of GDP in 2024, and ₱4.53 trillion or 15.5 percent of GDP in 2025.

Some of the possible risks to the 2023 and 2024 revenue outlook are the following:

a. Frequent and/or extreme weather events due to climate change;
b. Natural disasters such as volcanic eruptions, typhoons, and floods among others;
c. A resurgence of COVID-19 infections with the spread of new and more virulent variants;
d. Elevated inflation due to inadequate food supply as a consequence of highly-infectious animal diseases, inclement weather, natural disasters, high cost of inputs, and insufficient imports;

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[30] Jocson, Luisa Maria Jacinta C. (2 March 2023). *Budget gap exceeds ceiling in.*BUSINESSWORLD. https://www.bworldonline.com/top-stories/2023/03/02/507913/budget-gap-exceeds-ceiling-in-2022/

[31] *NEDA (5 December 2022). Joint Statement of the DBCC on the Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for FY 2023 to 2028 .https://neda.gov.ph/joint-statement-of-the-dbcc-on-the-review-of-the-medium-term-macroeconomic-assumptions-and-fiscal-program-for-fy-2023-to-2028/#:~:text=Real%20Growth%20Projections&text=This%20momentum%20is%20expected%20to,slowdown%20in%20major%20advanced%20economies.*

[32] *The World Bank. (December 2022). Philippines Economic Update, Bracing for Headwinds, Advancing Food Security. https://www.worldbank.org/en/country/philippines/publication/philippine-economic-updates#:~:text=Anchored%20on%20more%20robust%20domestic,24%20amidst%20intensifying%20global%20uncertainties.*

[33] *Fitch Rating and Moody's Investors Service*

[34] *Domingo, R.W. (25 February 2023). PH GDP growth seen losing steam in '23, '24 . INQUIRER.NET. https://business.inquirer.net/388212/ph-gdp-growth-seen-losing-steam-in-%CA%BC23-%CA%BC24*

e. Dwindling of pent-up demand and impact of interest rate hikes;
f. Tighter fiscal space;
g. The limited absorptive capacity of implementing agencies and Local Government Units (LGUs);
h. Escalation of the ongoing Russia-Ukraine war that triggered massive shock on global energy prices, supply chain bottlenecks, and disruption to mobility, financial flows, and cross-border investment;
i. Cyberattacks on critical infrastructure such as government collecting agencies. An attack against digitalization could bear implications for productivity gains and longer-term growth; and
j. Non-passage of the four tax policy measures in 2024 as identified in the Medium-Term Fiscal Framework:
    i. Package 4 or the Passive Income and Financial Intermediary Taxation Act;
    ii. VAT on digital service providers;
    iii. Excise tax on single-use plastics; and
    iv. Excise tax on pre-mixed alcoholic beverages.

Table 4. Philippines: Medium Term Revenue Program, 2023 – 2025
(in billion pesos)

Particulars	2021 Actual	2022 Actual	2023 Program	2024 Program	2025 Program
Total revenues	3,005.54	3,545.51	3,729.00	4,184.42	4,691.98
% of GDP	*15.5%*	*16.1%*	*15.2%*	*15.7%*	*16.1%*
Tax revenues	2,742.72	3,220.32	3,537.95	3,985.44	4,526.21
% of GDP	*14.1%*	*14.6%*	*14.4%*	*14.9%*	*15.5%*
BIR	2,078.15	2,335.67	2,639.17	2,965.85	3,408.51
BOC	643.56	862.42	874.17	992.92	1,072.90
Other offices	21.01	22.22	24.61	26.67	44.80
Non-tax revenues	262.14	325.19	191.06	198.98	165.77
Grants and privatization	0.68	2.75	0.50	0.50	0.50
Nominal GDP	*19,410.57*	*22,023.28*	*24,580.58*	*26,722.99*	*29,164.53*

Notes:
1. *Totals may not add up due to rounding off.*
2. *Medium-term revenue program is based on the 24 April 2023, DBCC-approved levels.*
3. *Projected nominal GDP for 2023 to 2025 are best-case estimates shared by NEDA as of April 20, 2023.*

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

Table 5. Philippines: Medium Term Revenue Program, 2023 – 2025
(Growth rates)

Particulars	2021 Actual	2022 Actual	2023 Program	2024 Program	2025 Program
Total revenues	5.2%	18.0%	5.2%	12.2%	12.1%
Tax revenues	9.5%	17.4%	9.9%	12.6%	13.6%
BIR	6.5%	12.4%	13.0%	12.4%	14.9%
BOC	19.7%	34.0%	1.4%	13.6%	8.1%
Other offices	33.7%	5.7%	10.7%	8.4	68.0%
Non-tax revenues	-25.3%	23.0%	-41.2%	4.1%	-16.7%
Grants and privatization	-5.6%	307.4%	-81.8%	0.0%	0.0%

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

Tax administration and policy reforms

DOF priority tax administration and policy measures under the 19th Congress

The Medium-Term Fiscal Framework (MTFF) proposes measures that will improve tax administration, enhance the fairness and efficiency of our tax system, and promote environmental sustainability to address climate change.

a. Rigorous tax administration 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 the 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.

    i. BIR will prioritize the Digital Transformation (DX) Roadmap. This will allow the agency to maximize the government's revenue potential, simplify taxpayer compliance, and automate compliance checks and audit selection processes.

    ii. BOC will continuously engage with the World Bank to improve the agency's systems and enhance trade facilitation. Through the development of information and communications technology (ICT), the BOC will be able to promote a streamlined customs process while maximizing the revenue potential and enhancing border security through better detection. Owing to the modernization program, the BOC has automated 81.76 percent (139 out of 170) of the Customs Processes as of end-2021. The BOC will likewise continuously implement its fuel marking program, which has already generated ₱467.4 billion in taxes and duties from having marked ₱44.11 billion liters of fuel from September 2019 to 8 July 2022. The BOC will also ensure enhanced monitoring of possible smuggling activities, particularly the smuggling of tobacco products.

b. In addition, we will work for the passage of the remaining tax reform packages of the Duterte administration, along with other key policy measures that would allow our tax system to catch up in the digital economy and help accelerate our recovery.

    i. Real Property Valuation and Assessment Reform Act will broaden the tax base used for property and property-related taxes of the national and local governments, thereby improving government revenue without imposing new taxes. The measure mandates the adoption of internationally accepted real property valuation standards, rationalization of the process of valuation, and establishment of a single valuation base for taxation.

    The bill's urgent enactment will assist the LGUs in optimizing revenue collections, depoliticizing the valuation system, and enabling the regular updating and creation of a comprehensive electronic database. In turn, this measure is seen to increase land-related transactions, capital inflow, and investments in the economy.

    ii. Package 4 (Passive Income, Financial Intermediaries, Pick-ups Taxation plus Tax Administration or PIFITA). Being the last package of the previous administration's CTRP that comprehensively amends the Tax Code, the DOF deemed it necessary to expand the original Passive Income and Financial Intermediary Taxation Bill (PIFITA)'s coverage and include other reform items to finally complete and achieve the aims of the CTRP.

    The original PIFITA is aimed at making the taxation of passive income, financial intermediaries, and financial transactions simpler, fairer, more efficient, and more regionally competitive. Package 4 reduces the number of widely-varying tax rates and bases on passive income and financial intermediaries; adopts a regionally competitive financial tax system; and harmonizes business taxes on financial intermediaries. With the enhanced version of the bill, we are amending policies that have yielded adverse results or those that require necessary updating such as the removal of the excise tax exemption of pick-up trucks, and the inclusion of tax administration provisions left unpassed in Tax Reform for Acceleration and Inclusion Law (TRAIN) or Corporate Recovery and Tax Incentives for Enterprises (CREATE) like the updating of Tax Code penalties, adjustment of the compromise thresholds, and allowing the Commissioner to automatically exchange financial information with other tax administrations.

The lifting of the exemption of pick-ups from excise tax is also included in the proposal.

c. The imposition of VAT on digital service providers (DSPs) is aimed at leveling the playing field between traditional and digital businesses. This measure clarifies that goods or properties, including digital or electronic, and services rendered electronically, are subject to VAT. This bill does not impose new taxes but merely strengthens and streamlines our authority to collect VAT by providing a mechanism on how DSPs, especially those non-residents who do not have a physical presence in the Philippines, can comply with the VAT requirements imposed by the Tax Code. With this measure, the non-resident DSPs will be authorized to collect and remit the VAT on the digital transactions that go through their platforms.

d. Excise tax on single-use plastics will impose a 20-peso excise tax for every kilogram of plastic bag removed from the place of production or released from the customs house and index the excise tax rate every year, thereafter. This is to regulate or tax the consumption of single-use plastics as among the Philippines' contributions to the global movement to reduce pollution and adopt more sustainable practices.

e. Rationalization of the Mining Fiscal Regime. Establishing a single and rationalized fiscal regime applicable to all large-scale metallic mines, regardless of location, is sought. This reform can make our mining policy predictable and ensure the equitable share of government in the utilization of natural resources. To achieve value-adding, an export tax on mineral ore to encourage downstream and value-adding processing and proper valuation of minerals. For good governance, this measure will increase transparency and accountability in the extractive industries.

Digitalization

Utilization of digital collection platforms offered by National Government Agencies for fees and charges to retail clients and stakeholders remains low despite being a priority of the administration.

Digitalization is essential in nation-building as it promotes the efficient administration of government services, accelerates government transactions, and reduces the risk of graft and corruption. The NG has been developing an inclusive digital finance system, as indicated in its Digital Payments Transformation Roadmap 2020-2023 and the National Strategy for Financial Inclusion 2022-2028, by making formal financial services more available to vulnerable and underserved sectors.

The COVID-19 pandemic highlighted the advantages of maximizing digital payment services and ascertaining the potential of transactions to become efficient, convenient, secure, and transparent. The government is committed to implementing a digital transformation of the public sector as demonstrated by the issuance of Executive Order No. 170, s. 2022, "Adoption of Digital Payments for Government Disbursements and Collections." President Marcos certified as urgent the E-Governance Act of 2022, which was approved by the House of Representatives last 27 February 2023. As a priority legislation, the bill would ensure the accessible and efficient delivery of government services to the public.

The benefits of digital transformation initiatives include expediting the collection process for convenience to the paying public. The following table illustrates that most tax collections and customs duties are collected through electronic channels.

Table 6. Updates on the Implementation of E.O. 170
(in million pesos)

Particulars	Total Collections	Thru Authorized Agent Banks (AABs)	Thru Authorized Government Depository Banks (AGDBs)
BIR			
Total Collections	1,939,375.28 *(100%)*	1,918,875.29 *(100%)*	20,500.00 *(100%)*
Over-the-Counter	286,453.02 (15%)	265,971.88 (14%)	20,481.14 (99.99%)
Electronic	1,652,922.27 (85%)	1,652,903.41 (86%)	18.86 (0.1%)
BOC			
Total Collections	864,764.63 *(100%)*	838,711.53 *(97%)*	26,053.09 *(3%)*
Over-the-Counter	23,333.28 (3%)	4,887.83 (1%)	18,445.45 (71%)
Electronic	841,431.34 (97%)	833,823.71 (99%)	7,607.64 (29%)

Source: Bureau of the Treasury
As of 31 December 2022

Some agencies collecting fees, charges, and other miscellaneous income are currently offering digital modes of collection. However, the utilization of such digital collection platforms remains to be low. Based on BTr records, only ₱19.5 Billion or 9.71 percent of total fees, charges, and other miscellaneous income collection were collected through electronic channels.

Table 7. Share of Non-tax Revenues Collection Channels
(in million pesos)

Non-tax Revenues (Fees, Charges, and other Misc. Income)	2022	%
Agencies offering Electronic Collections	201,408.63	100.00%
Over-the-Counter	181,857.27	90.29%
Electronic/Online Channel	19,551.36	9.71%

Source: Bureau of the Treasury
As of 31 December 2022

Most of the collections are retail in nature. Some of the issues encountered are that there are still several government agencies that do not offer electronic collection systems, high convenience fees that make the paying public hesitant to use electronic payment platforms, and the non-issuance of electronic official receipts due to the absence of a centralized eOR reference numbering system.

Solutions were placed to address the above-mentioned by launching *eGovPay*, an online payment system for government agencies that is envisioned to provide a centralized e-payment aggregator service for minimum convenience fees and to issue eORs as the National Printing Office develops an E-Receipts System. Landbank will also maximize the eGovPay system to improve its LinkBiz portal.

In the adoption of the digitalization of disbursements and collections, opportunities for capacity building to innovate payment systems, enhance cybersecurity, and data privacy protection tools arose for proper migration to online payment system platforms.

Public Debt

The NG raised a total of ₱2,163.5 billion in 2022, which was lower by ₱48.3 billion than the original borrowing target of ₱2,211.8 billion. This outcome resulted from the lower fiscal deficit of ₱1,614.1 billion or 7.3 percent of GDP compared to the original program of ₱1,650.4 billion or 7.6 percent of GDP, as total revenue collections outpaced nominal GDP by posting an annual growth of 18.0 percent. Furthermore, the NG also downscaled its offshore borrowings by $1.0 billion or ₱41.4 billion in response to the massive depreciation of the peso prompted by the aggressive monetary tightening of the Fed to avoid the absorption of greater valuation effects.

As the deficit remains elevated compared with historical norms to accommodate expenditures on public fixed capital formation, the NG debt-to-GDP ratio rose slightly from 60.4 percent in 2021 to 60.9 percent in 2022. Tempering the contribution of the deficit to the rise in public debt was the country's stronger-than-expected real GDP growth of 7.6 percent. While the NG debt-to-GDP ratio remains above the acceptable threshold of 60.0 percent for emerging market economies, this level remains within the bounds of fiscal viability and long-term sustainability on account of the favorable and resilient structure of the NG debt profile.

Table 8. Philippine NG Debt Indicators, 2020-2022

Particulars	2020	2021	2022
National Government Debt			
% of GDP	54.6	60.4	60.9
By Currency (% to total)			
Local	68.3	69.7	68.6
Foreign	31.7	30.3	31.4
By Interest Rate (% to total)			
Fixed	89.7	89.4	88.8
Floating	9.9	10.2	10.8
By Maturity Type (% to total)			
Long Term	67.3	69.6	74.4
Medium Term	23.0	23.6	22.3
Short Term	9.8	6.8	3.1
Interest Payments			
% of Revenues	13.3	14.3	14.2
% of Expenditures	9.0	9.2	9.7

Source: Bureau of the Treasury

Although financing requirements remain elevated over the medium term, the NG continues to borrow in a responsible manner in light of tighter global financial conditions and other unfavorable external developments, thereby preserving the resilience of our debt profile and reassuring investors of the soundness of Philippine credit, which in turn enables the NG to secure funds at affordable costs.

Despite the 9.5 percent depreciation of the peso throughout the previous year, the foreign currency component of the NG debt portfolio was only recorded at 31.4 percent at the end of 2022, indicating that the servicing of interest and principal is less vulnerable to foreign exchange movements.

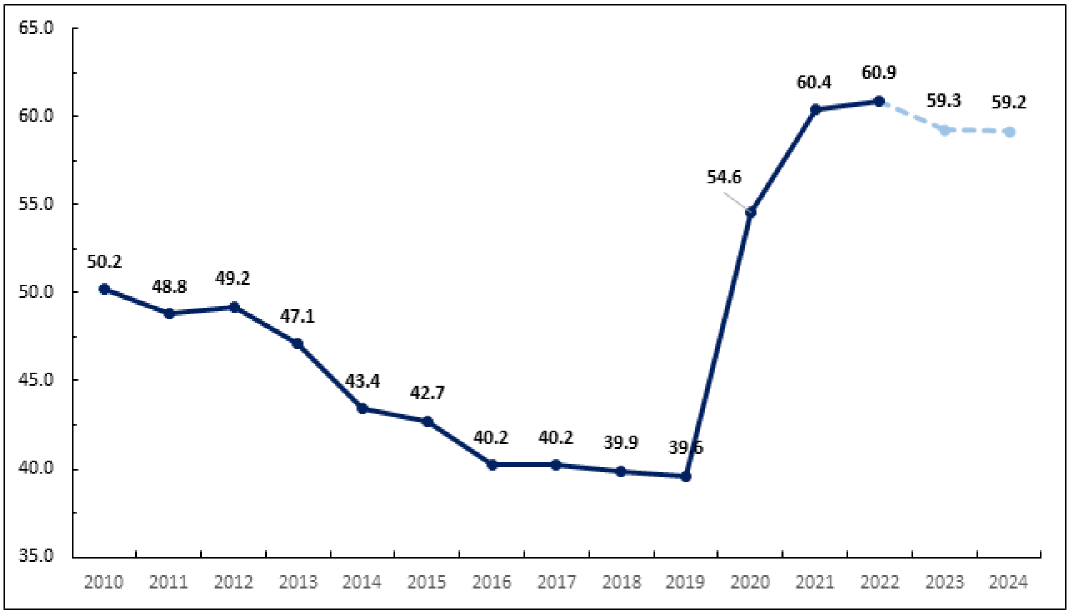
The share of debt on variable interest rate terms remains minimal at only 10.8 percent at the end of 2022 and hence limits the NG's exposure to abrupt changes in interest rate setting. Meanwhile, the concentration of issuances along the intermediate and long segments of the curve and the pro-active pursuit of liability management transactions such as bond exchanges have re-lengthened the maturity profile of the NG debt, thereby keeping the refinancing or non-repayment risk within acceptable levels.

Moreover, the debt servicing burden continues to be manageable despite the rise in borrowing costs due to the aggressive monetary tightening of the Fed and the BSP. As of end-2022, interest payments in proportion to total disbursements settled at 9.8 percent from 9.2 percent in 2021, implying that the fiscal space remains sufficient to accommodate productive spending. On the other hand, the ratio of interest payments to revenues slightly declined to 14.2 percent from 14.3 percent in 2021, indicating that the NG has ample capacity to pay interest.

Outlook and Sources of Fiscal Risks

Originally, the Medium-Term Fiscal Framework (MTFF) targets a debt-to-GDP ratio of 61.4 percent for 2023 and 60.2 percent for 2024. However, given the lower outcome of 60.9 percent in 2022, the NG debt-to-GDP ratio will likely settle at 59.3 percent and 59.2 percent in 2023 and 2024, respectively, based on the assumptions for the deficit, GDP growth, and other factors such as the exchange rate and inflation. Over the medium term, the debt ratio is expected to consolidate by around 10 percentage points as the economy sustains its strong growth momentum.

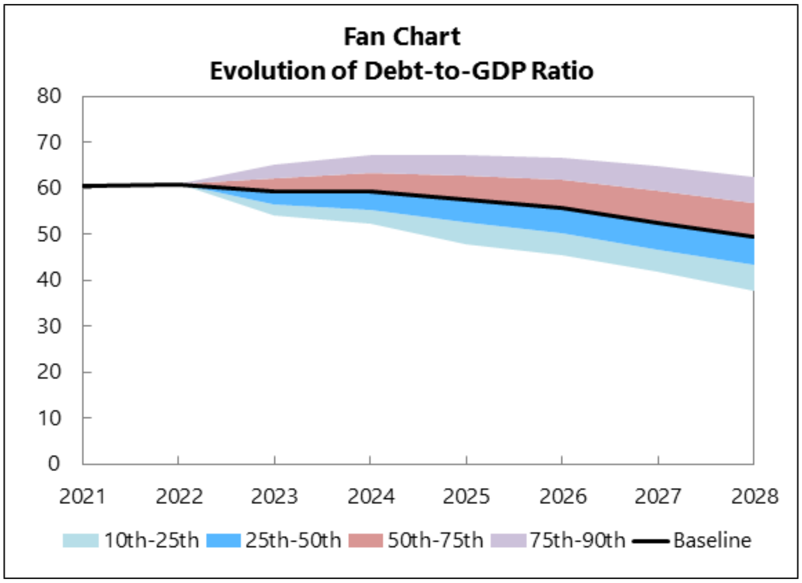
Figure 1. Philippines: National Government Debt-to-GDP Ratio, 2010-2024



The primary risk to the outlook remains to be the strength of the post-pandemic growth trajectory given external headwinds. As revenue generation is ultimately linked to economic activity, a deviation from the baseline growth outlook will have the adverse impact of the NG not meeting its revenue targets, thereby increasing borrowing requirements which will further inflate the public debt.

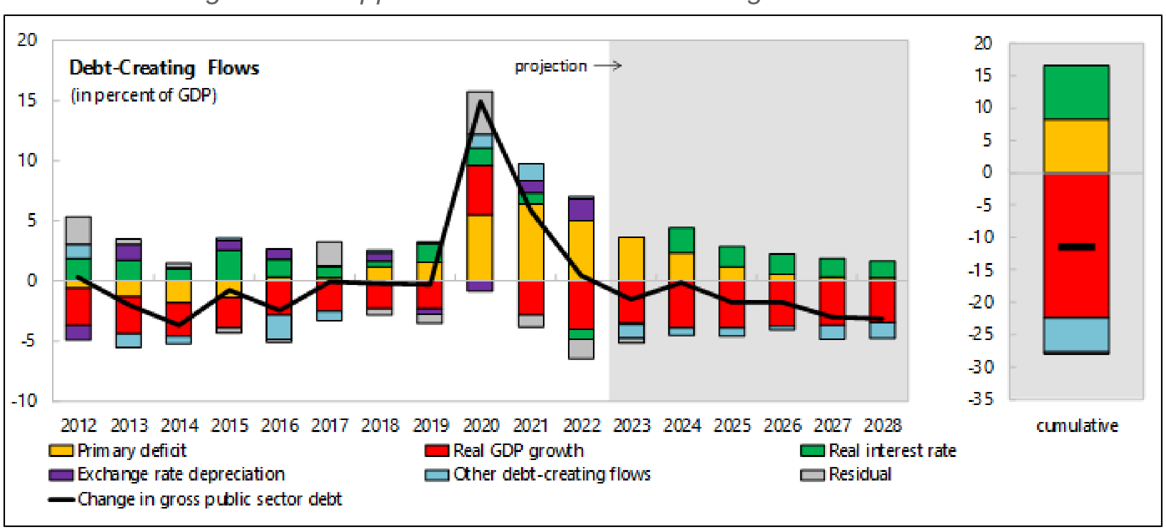
The Debt Sustainability Analysis (DSA) suggests that the Philippines' debt-to-GDP ratio has already peaked in the previous year and will consolidate rapidly over the medium term, in line with the country's objective of long-term debt sustainability. The baseline scenario uses the 184th DBCC Macroeconomic Assumptions, which programmed the fiscal deficit to decline progressively from 6.1 percent in 2023 to around the 3.0 percent to 3.5 percent levels starting 2026, whereby the NG has already withdrawn much of its post-pandemic fiscal support and assumed fiscal consolidation.

Figure 2. Philippines: Baseline NG Debt Dynamics, 2021-2028



While the primary deficit remains a key debt-creating flow over the medium term, the combined normalization of fiscal policy starting in 2026 and the anticipated robust economic growth over the next five years are projected to be sufficient in improving the NG debt-to-GDP ratio. Furthermore, real interest rates are also projected to contribute adversely to the debt-to-GDP ratio as expected inflation reverts to the central bank's target and nominal interest rates normalize domestically and globally. Nevertheless, economic growth will continue to outpace the real cost of debt, leaving the Philippines with a favorable interest rate-growth differential needed to stabilize the public debt. Finally, the DSA has also identified a primary deficit at around 3.4 percent of GDP as the debt-stabilizing balance. The Philippines is projected to run a primary deficit averaging 1.4 percent of GDP for the next five years, indicating that the NG's fiscal program will lead to a successful debt reduction.

Figure 3. Philippines: Contributions to Changes in Public Debt



Risk Mitigating Measures

Debt Management Strategies

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

The continued policy instrument of heavily favoring domestic sources of funding at around 75.0 percent to 80.0 percent of the borrowing mix has reoriented the currency composition of national debt to 68.6 percent domestic versus 31.4 percent foreign in 2022, an improvement from the distribution of 64.6 percent domestic versus 35.4 percent foreign in 2016, meaning that debt servicing is less volatile from foreign exchange fluctuations.

The NG also maintains its strong international presence by issuing bonds in multiple hard currency markets to supplement its regular domestic funding operations. In line with its strategy of diversifying its investor base, the NG has issued in the US Dollar, Euro, Samurai, and Panda markets with well-received deals that achieved tight and cost-efficient pricing. Notably, the NG has issued ESG-linked sovereign bonds via the 25-year tranche in the US Dollar market and across all tranches in the Samurai market to support the country's sustainable development and climate change mitigation.

Table 9. 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)	● August 2018 marked the ROP's return 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 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)	● After 13 years, the ROP returned to the European bond market in May 2019, raising EUR 750 million. ● In February 202, the ROP had its lowest coupon Euro-denominated issuance in the international capital markets.
Panda Bonds	● March 2018: RMB 1.46 billion (3-year) ● May 2019: RMB 2.5 billion (3-year)	● The Philippines was the first ASEAN member to issue Panda bonds with its inaugural RMB-denominated bond issuance in March 2018.
Dollar Bonds	● April 2020: USD 2.35 billion (10- and 25-year) ● June 2021: USD 3 billion (10.5-, and 25-year) ● October 2021: USD 1.6 billion (5- and 10-year)	● The ROP was the first sovereign global to price syndicated benchmark tranche with zero new issue premium during the COVID-19 crisis in April 2020. ● ROP issued its largest dual-tranche global bond in history in June 2021.

	● March 2022: USD 2.25 billion (5, 10.5, and 25-year) ● October 2022: USD 2 billion (5, 10.5, and 25-year) ● January 2023: USD 3 billion (5, 10.5, and 25-year)	● The ROP successfully raised its first-ever retail onshore dollar bonds. ● The ROP benefitted from the ESG label by garnering a massive order book that is multiple times the offer volume. The March 2022 issuance was the first sovereign ESG global bond issuance via the 25-year tranche in support of the country's sustainable development and climate change adaptation. Meanwhile, the ROP successfully priced its October 2022 bond issuance under the new administration. On the other hand, the January 2023 transaction recorded tighter spreads as low as 45 to 50 basis points, with the final order book around 14.0 times the initial volume of USD 2.0 billion.

Moreover, the NG also concentrates its issuances along the belly and long end of the yield curve and conducts active liability management transactions when market conditions are conducive for such exercises to maintain an average maturity target of 7.0 to 10.0 years. This ensures a minimal refinancing risk and avoids the bunching up of amortization requirements.

Capital Market Development

By shoring up the participation of small savers in the local government securities market through an array of retail instruments such as Retail Treasury Bonds (RTBs), Premyo Bonds, and Retail Onshore Dollar Bonds (RDBs), the NG has turned the retail sector as a reliable pillar of financing. Coupled with continuous financial literacy drives across the globe and the development of online ordering platforms to support financial inclusion, local retail market participation has expanded the share of bonds in retail format from only 20.9 percent in 2016 to 38.8 percent of total government securities in 2022.

The proposed corporate pension reform envisions a shift from a defined benefit to a defined contribution scheme to address long-standing issues, such as unfunded or underfunded pension liabilities, lack of portability of retirement accounts, and the inadequacy of pension benefits. When passed, the transition to a fully funded private sector pension system will deepen the country's savings rate from a meager 10.8 percent in 2022 and increase the replacement rate ranging from 3.0 percent to 22.0 percent to a more commonly accepted level of 70.0 percent. In turn, this will capture a massive supply of capital that would develop a broad institutional investor base that can sustain demand for long-term assets and channel investible funds into the NG's infrastructure projects.

Domestic Liquidity

As of February 2023, domestic liquidity (M3) grew by 6.0 percent to about ₱16.1 trillion from the 5.6 percent growth in January 2023, sufficient to support the growth of the economy. Domestic claims rose by 11.6 percent in February 2023 from 11.4 percent in January 2023. In the same reference months, claims in the private sector grew by 9.9 percent from 10.7 percent due to the sustained expansion in bank lending to non-financial private corporations and households. Net claims on the central government likewise increased by 17.4 percent in February 2023 from 16.5 percent in the previous month owing to the borrowings by the National Government. Meanwhile, net foreign assets (NFA) in peso terms decreased by 3.1 percent in February 2023, following the 1.0 percent contraction in January 2023. The NFA of banks declined mainly on account of higher bills payable. Similarly, the BSP's NFA position fell by 2.3 percent in February 2023.

Likewise, bank lending expanded in February 2023. Preliminary data show that outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP, grew by 10.0 percent in February 2023 from 10.4 percent in the previous month.

Outstanding loans to residents, net of RRPs, increased by 9.9 percent in February 2023, slower than the 10.2 percent rise in January 2023. In the same reference months, outstanding loans for production activities expanded by 8.7 percent from 9.2 percent, driven by the growth in credit to key sectors, particularly financial and insurance activities (12.5 percent); wholesale and retail trade, repair of motor vehicles and motorcycles (9.2 percent); electricity, gas, steam, and air-conditioning supply (9.3 percent); information and communication (18.6 percent); manufacturing (8.3 percent); and real estate activities (3.8 percent).

Similarly, consumer loans to residents rose by 21.2 percent in February 2023 from 20.3 percent in the previous month with the sustained growth in credit card and salary-based general-purpose consumption loans. Meanwhile, outstanding loans to non-residents[35] grew by 14.8 percent in February 2023 albeit slower than the 16.8 percent growth rate in the previous month.

Monetary Policy Assessment

In 2022, the BSP held eight monetary policy meetings and adjusted its policy rate by a cumulative increase of 350 basis points (bps): 25 bps each in May and June, 75 bps in July (off-cycle), follow-through increases of 50 bps each in August and September, 75 bps in November, and 50 bps in December. The Monetary Board assessed that decisive monetary policy recalibrations were necessary amid broad-based inflation pressures, persistent upside risks to inflation, and elevated inflation expectations. At the same time, the BSP deemed that safeguarding price stability in the current environment requires aggressive monetary action to bring headline inflation back to the 2.0-4.0 percent target as soon as possible. The BSP's tightening of monetary policy settings also continues to provide a cushion against external spillovers amid tighter global financial conditions.

The BSP has wound down provisional advances (PA) to the NG in 2022. The most recent tranche of PA amounting to ₱300 billion granted in March 2022 was fully paid in advance in May 2022. Since then, the NG has not expressed any intent to avail further advances from the BSP, consistent with its expectations of improved public finances as the economic recovery continues to gain traction.

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

Meanwhile, during its February 2023 meeting, the Monetary Board raised the BSP's policy interest rate anew by 50 bps following the higher-than-expected inflation outturn in January, the continued stronger rebound in domestic demand and gross domestic product (GDP) growth in Q4 2022, with the balance of risks to inflation leaning toward the upside. This was followed by another 25 basis points (bps) policy rate increase on 23 March 2023, which brought the interest rate on the BSP's overnight reverse repurchase to 6.25 percent and overnight deposit and lending facilities to 5.75 percent and 6.75 percent, respectively. The Monetary Board assessed that the new information, the effects of past policy actions, and the rising core inflation warranted a continuation of monetary tightening to anchor inflation expectations and address broadening price impulses emanating from robust domestic demand and lingering supply-side constraints.

The BSP believes that the follow-through monetary action would help ease persistent price pressures from here and abroad as well as further realign inflation expectations with the target band over the policy horizon. Further policy tightening will also preserve the buffer against external spillovers amid heightened uncertainty and volatility emanating from financial sector distress in advanced economies. Nevertheless, even as the BSP has assessed that the Philippine banking system is resilient to evolving market conditions, the BSP continues to keep a watchful eye on developments in the international banking industry.

The BSP remains prepared to take all necessary policy action with its available tools to bring inflation toward a target-consistent path over the medium term. Future monetary policy decisions will continue to depend on the BSP's analysis of a wide range of economic and statistical data while also providing clear forward guidance to the public to help anchor inflation expectations. To complement monetary policy decisions, the BSP continues to be supportive of the non-monetary interventions by the National Government, as well as other measures such as the creation of the Inter-agency Committee on Inflation and Market Outlook, which will help address the supply-side aspect of inflation, particularly on food and energy.[36]

[36] The BSP will serve as a resource institution to the inter-agency committee.

External Sector

The country's external sector remains manageable with adequate liquidity buffers, which can help cushion the domestic economy against external shocks. The current account recorded a deficit of US$17.8 billion (equivalent to -4.4 percent of GDP) in 2022, higher than the US$5.9 billion deficit (equivalent to -1.5 percent of GDP) recorded in 2021. The higher current account deficit emanated from the widening merchandise trade gap, which widened by 31.4 percent in 2022 as the growth in imports of goods continued to outpace that of exports. This was partly mitigated by the expansion in net receipts in the primary income, trade-in services, and secondary income accounts.

As of end-March 2023, the country's gross international reserves (GIR) level stood at US$100.2 billion, slightly higher than the US$98.2 billion as of end-February 2023. At this level, the GIR remains well above the standard adequacy metrics and represents ample liquidity buffer as it is equivalent to 7.5 months' worth of imports of goods and payments of services and primary income. It is about 6.0 times the country's short-term external debt based on original maturity and 4.2 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.

The external debt-to-GDP ratio also indicates manageable debt levels as well as the sustained capability of the country to service foreign borrowings in the medium- and long term. The country's external debt-to-GDP ratio was recorded at 27.5 percent, slightly higher than the 27.0 percent registered in 2021. In addition, the country's external debt remains largely in the medium- to long-term maturity profile, which means that foreign exchange requirements for debt payments are still well spread out and, thus, manageable.

Overview of Performance and Outlook of the Philippine Financial System

In 2022, the Philippine financial system's condition and overall performance were summarized by 3S: sound, stable, and supportive of the financing requirements of the domestic economy. The Philippine banking system, as the core of the Philippine financial system[37], maintained manageable National Government[38] exposures and sustained its resilience. The banking system continued to exhibit positive performance as shown by its sustained growth[39] in assets, loans, deposits, capital, and net profit, as well as its stable capital and liquidity buffers and ample loan loss reserves.

Banks expressed optimistic views on the Philippine economy. Based on the latest industry survey[40], the outlook on the Philippine banking system was stable with prospects of double-digit growth in assets, loans, investments, deposits, and net income, as well as a general improvement in asset and loan quality indicators for the next two years.

With improving economic conditions and recovery of credit activity, the loan quality of banks is expected to get better in the next two (2) years. In particular, around 52.4 percent of respondents (down from 58.9 percent in the previous survey) estimated a non-performing loan (NPL) ratio of above 5.0 percent in the next two years. By banking group, the NPL ratio projection of universal and commercial banks (UKBs) shifted to within the range of greater than 2.0 to 3.0 percent from greater than 3.0 percent in the comparative period. Most UKBs also estimate their NPL coverage ratio to be at least 75 percent, with some estimates exceeding 100 percent.

Meanwhile, the majority of the respondent banks estimated their net interest margin (NIM) to range from 3.0 percent to 20.0 percent in the next two years. Banks likewise intended to maintain their capital adequacy ratios, leverage, and liquidity ratios at levels higher than the BSP and international standards to promote institutional stability.

Condition and Performance of the Philippine Banking System[41]

The Philippine banking system remained sound and stable in 2022. The improvement in credit activity coupled with the continued confidence of depositors fueled the asset expansion of banks. Total resources of the banking system rose by 10.7 percent year-on-year (y-o-y) to ₱23.0 trillion in 2022, marking its first double-digit y-o-y growth since July 2019.

Assets were channeled mostly to loans[42], accounting for around 52.9 percent share (₱12.2 trillion). Investments in securities[43], and cash and due from banks followed with a share of about 27.5 percent (₱6.3 trillion) and 14.2 percent (₱3.3 trillion), respectively.

[37] As of end-December 2022, the total assets of banks comprised around 82.9 percent (₱23.8 trillion) of the total resources of the Philippine financial system (₱28.7 trillion). The condition and performance of the Philippine banking system were used to represent the performance and outlook of the Philippine financial system.
[38] In terms of banks' investment in government securities and acceptance of government deposits and government guarantees.
[39] Growth rates pertain to y-o-y unless otherwise specified.
[40] Source: Banking Sector Outlook Survey (BSOS) for the First Semester of 2022.
[41] Growth rates and covered period pertain to y-o-y and end-December 2022, respectively, unless otherwise specified.
[42] Inclusive of Interbank Loans Receivables, Loans and Receivables-Others and Reverse Repurchase Agreement, net of allowance for credit losses.
[43] Composed of investments in debt and equity securities, as well as equity investments in subsidiaries/ associates/joint ventures, net of amortization and allowance for credit losses, as applicable.

Deposits, which stood at ₱17.8 trillion, funded around 77.1 percent of the total resources of the banking system. Other sources of funding like bills payable at ₱666.0 billion (3.3 percent share) and bonds payable at ₱578.2 billion (2.8 percent share) remained minimal when compared to total bank liabilities.

The mix of the banking system's assets and stable funding sources allowed banks to pursue growth while effectively managing their risk exposures.

Bank lending continued to expand and remained broad-based across various types of industries. Gross total loans rose by 10.8 percent to ₱12.6 trillion, marking 17 consecutive months of y-o-y growth since August 2021.

Banks remained supportive of the country's financing requirements. In terms of economic activity, the real estate sector was the main loan recipient with an 18.3 percent share, growing by 4.8 percent to ₱2.3 trillion. This was followed by wholesale and retail trade, manufacturing, and electricity, gas, steam, and air-conditioning supply with shares of 10.9 percent (₱1.4 trillion, up by 11.3 percent), 10.2 percent (₱1.3 trillion, up by 15.6 percent), and 9.6 percent (₱1.2 trillion, up by 14.3 percent).

Meanwhile, loans for household consumption, which cornered an 11.0 percent share, registered 21.4 percent y-o-y growth to ₱1.4 trillion.[44]

Notwithstanding this credit expansion, banks' credit risk exposures remained manageable and diversified owing to prudent credit practices and continuous reforms in their risk management system as well as sound provisioning practices.

Loan quality remained satisfactory. This was evident in the easing of the banking system's total NPLs, which declined by 11.9 percent y-o-y to ₱398.8 billion from ₱452.5 billion in 2021. Consequently, the banking system's gross NPL ratio improved to 3.2 percent from the 4.0 percent recorded a year ago. This improvement in loan quality was accompanied by ample provisioning as the NPL coverage ratio stood at 107.0 percent, up from 87.7 percent in 2021.

Moreover, banks continued to provide support to eligible borrowers through loan restructuring. Total restructured loans reached ₱329.7 billion in 2022, representing about 2.6 percent of the banking system's total loans.

Amid inflationary pressures and policy rate hikes[45], bank lending rates have started to inch up. The overall mean and median weighted average interest rate (WAIR) on loans of UKBs stood at 6.9 percent and 5.7 percent, respectively, for the period ended October 2022, higher than the 5.3 percent and the 5.1 percent recorded from the same period a year ago but lower than the 8.2 percent and the 5.8 percent recorded in March 2020 (prior to the pandemic).

The BSP has started to ease the temporary relief measures implemented during the COVID-19 crisis except for those that encourage lending to micro, small, and medium enterprises or MSMEs. The relief measures that were extended until end-June 2023 are the reduced credit risk weight of loans granted to MSMEs of 50 percent and the utilization of loans to MSMEs as alternative compliance with the reserve requirements. The extension of these relief measures aims to encourage banks to continue to support the financing requirements of creditworthy MSMEs as these enterprises recover and cope with the ongoing policy normalization.

[44] Based on the BSP Senior Loan Officers' Survey (SLOS) for the fourth quarter of 2022, credit demand of business and households (i.e., housing loans, credit card loans, and personal/salary loans) was driven by improvement in businesses and customers' economic outlook and increase in inventory and accounts receivable financing needs. This increase in loan demand to enterprises was matched by a net tightening of credit standards. This is consistent with the results of the BSP Q4 2022 Business Expectations Survey and the BSP Q4 2022 Consumer Expectations Survey which indicated sustained positive business and consumer sentiments although less upbeat for the first quarter of 2023 and the next 12 months.

[45] Since May 2022, the BSP has increased the policy rate by an aggregate of 425 basis points (bps). In particular, the BSP policy rate was increased by 25 basis points (bps) on 20 May 2022 and 24 June 2022, by 75 bps on 14 July 2022, by 50 bps on 19 August 2022 and 23 September 2022, by 75 bps on 18 November 2022, by 50 bps on 16 December 2022 and 17 February 2023, and by 25 bps on 24 March 2023.

In 2022, banks granted ₱492.6 billion worth of loans to the MSME industry, or 3.9 percent of total loans, gross. This was higher than the ₱470.1 billion recorded in 2021. Total new MSME loans extended by U/KBs for October 2022 stood at ₱37.7 billion, an increase from the ₱33.6 billion recorded in 2021. In addition, banks have been restructuring loans of their MSME borrowers. As of end-December 2022, total restructured MSME loans stood at ₱24.8 billion or about 5.0 percent of the total MSME loans.

Corollary to this, the BSP extended the temporary increase in the single borrower's limit (SBL) to 30 percent from 25 percent until end-June 2023 to minimize disruption to the lending operations of banks on account of the alignment of the BSP's credit risk transfer regulations with internationally recognized standards. The extension in the said SBL framework also includes the grant of exposures by covered foreign bank branches at amounts which shall not exceed the 30 percent SBL using as a reference point 2x the level of their prescribed regulatory capital.[46]

Deposits continued to grow, indicating sustained depositor confidence. Bank deposits, which grew by 9.4 percent y-o-y to ₱17.8 trillion in 2022, were mostly peso-denominated and sourced from resident individuals and private corporations. Savings deposits had the biggest share of total deposits at 47.0 percent (₱8.4 trillion, up by 6.0 percent). This was followed by demand and NOW accounts at 28.6 percent (₱5.1 trillion, up by 5.9 percent), time certificates of deposit at 23.5 percent (₱4.2 trillion, up by 24.2 percent), and long-term negotiable certificate of deposit at 0.8 percent (₱150.8 billion, down by 22.0 percent).

Banks' capitalization remained higher than the BSP and international thresholds. Total bank capital expanded by 5.1 percent y-o-y to ₱2.7 trillion in 2022, driven mainly by the double-digit growth in capital stock to ₱1.3 trillion (up by 25.1 percent).

Meanwhile, the risk-based capital adequacy ratio (CAR) of the banking system continued to be well above the minimum requirement set by the BSP at 10 percent and the Bank for International Settlements (BIS) at 8 percent. As of end-September 2022, the banking system's solo and consolidated CARs stood at 15.8 percent and 16.4 percent, respectively.[47] Preliminary data as of end-December 2022 showed that the solo and consolidated CARs of the UKB industry stood at 15.4 percent and 16.1 percent, respectively. The common equity tier 1 (CET1) ratios of the banking system stood at 14.7 percent and 15.3 percent on solo and consolidated bases, respectively, as of end-September 2022. Preliminary data as of end-December 2022 showed that the solo and consolidated CET1 ratio of the UKB industry stood at 14.3 percent and 15.0 percent, respectively.

The UKB industry's Basel III Leverage ratio as of end-December 2022 was 8.8 percent and 9.3 percent on solo and consolidated bases, respectively. These ratios, which continued to be well above the BSP's minimum regulatory requirement of 5.0 percent and international threshold of 3.0 percent, indicate the industry's strength and ability to absorb unforeseen losses and support expansion in business operations.

Profits supported the increase in bank capital. The net profit of the banking system rose by 38.0 percent y-o-y to ₱310.1 billion in 2022, higher than the ₱224.8 billion in 2021. Meanwhile, the net interest margin or NIM for the same period stood at 3.7 percent, an improvement from the 3.5 percent recorded a year ago. Return on assets and return on equity likewise improved to 1.4 percent and 11.9 percent, respectively, from 1.1 percent and 9.0 percent in 2021.

Banks had ample buffers for their liquidity and funding requirements. Data as of end-December 2022 disclosed that the U/KB industry's solo and consolidated liquidity coverage ratio stood at 185.7 percent and 185.4 percent, respectively, while the solo net stable funding ratio was at 137.4 percent. These ratios, which are well above the BSP minimum regulatory requirement of 100 percent, show banks' strong liquidity positions and ability to fund customers and their operating requirements in the short- to medium-term.

[46] Circular No. 1164 dated 5 January 2023 (Amendments to the Regulations on Credit Exposure Limits to a Single Borrower and Definition of Capital).
[47] As of end-September 2021, solo and consolidated CARs of the banking system stood at 17.1 percent and 17.6 percent, respectively.

Meanwhile, stand-alone thrift, rural and cooperative banks (TBs, RBs, and CBs) surpassed the minimum liquidity ratio (MLR) requirement[48] of the BSP. Preliminary data as of end-December 2022 disclosed that the solo MLRs of these stand-alone banks stood at 29.9 percent, 63.7 percent, and 44.4 percent, respectively.

Risks from the Banking Sector

Asset quality improved as NPLs remained manageable and were matched with ample provisioning. The single-digit NPL ratio of the banking system was a result of the adoption of progressive policy reforms as well as prudent credit practices and improvement in the governance and credit risk management systems of banks. The extension of key credit-related relief measures alongside the full implementation of the Financial Institutions Strategic Transfer or FIST Act also helped support banks' NPL management.

Moreover, banks continued to be prudent in their provisioning practices as shown in their early recognition of provisions in 2020. Based on the latest industry survey, the majority of respondent banks believe that the NPL ratio will remain low, and this will be accompanied by high loan-loss provisions.

The banking system's preparedness to absorb unexpected losses and withstand shocks even during a crisis has enabled banks to continue to exhibit positive performance and demonstrate resilience amid the adverse effect of the COVID-19 crisis.

Exposures of the banking sector to the Philippine Government were mainly in the form of investments in government-issued securities. In 2022, banks' investments in government securities reached ₱4.7 trillion[49], representing 74.9 percent and 20.2 percent, respectively, of the banking system's total investment in securities and total assets. This was 23.3 percent higher than the ₱3.8 trillion government debt holdings in 2021.

Total investments in NG debt securities denominated in foreign currency amounted to US$30.5 billion (₱609.4 billion) in 2022, higher than the US$29.9 billion (₱496.3 billion) in 2021. This level accounted for about 35.8 percent of the banking system's investments in foreign currency-denominated debt securities.

Banks also held deposits of the Philippine government. The Philippine Government's total bank deposits, comprised 14.5 percent (₱2.6 trillion) of the banking system's total deposits in 2022.[50]
The shift to digital financial services and flexible work arrangements led to increased activities of cyber threat actors which also required careful monitoring. The results of the latest BSP industry survey showed that respondent banks are most concerned about cybersecurity threats. Malware, direct hacking/advanced for persistent threats, and phishing is the specific types of cybersecurity threat common to all banks, both traditional and digital banks.

The Philippines' vulnerability to climate change and other environment-related risks also has a potential negative impact on the safety and soundness of the financial system. Cognizant of this challenge, the BSP's mandates to maintain price and financial stability provide scope to champion the sustainability agenda in the financial sector.

[48] The reduced MLR of 16 percent (from 20 percent) was in effect until end-December 2022.

[49] By counterparty, investments in National Government securities had the largest share at 98.8 percent (₱4.6 trillion) of the total investments in government securities as of the same reference period. Meanwhile, investments in local government units (LGUs) and government-owned and controlled corporations (GOCCs) securities had minimal shares of 1.2 percent (₱55.3 billion) and 0.005 percent (₱213.1 million) of total investments in government securities, respectively.
By type, these NG securities were composed of treasury bonds with 52.3 percent share (₱2,4 trillion), followed by treasury bills and derivatives with minimal shares of 1.3 percent (₱57.9 billion) and 0.1 percent (₱2.8 billion), respectively, of NG securities. Other securities issued by the NG accounted for the remaining 46.3 percent (₱2.1 trillion).

[50] These were mostly deposits from the NG at 37.5 percent share (₱966.9 billion), LGUs at 35.9 percent (₱925.9 billion), and GOCCs at 26.5 percent (₱683.2 billion).

Risk Mitigation Measures

In recognition of these risks and challenges, the BSP remains committed to ensuring the continued safety, soundness, and resilience of the financial system through progressive policy reforms and initiatives that are supportive of a sustainable and financially inclusive economy. In this regard, the BSP will continue to adopt a progressive regulatory reform agenda, employ heightened surveillance tools, and strengthen collaborative partnerships with supervised entities and other stakeholders. These initiatives will help sustain the resilience and soundness of the Philippine banking system.

In promoting risk governance and risk management

The BSP pursued policy reforms on corporate governance and risk management frameworks aimed at ensuring the operational resiliency of supervised entities. In particular, the BSP issued the framework for the large exposures monitoring threshold which provides guidance for U/KBs and their subsidiary banks/quasi-banks (QBs) in complying with a monitoring threshold for large exposures of 25 percent of Tier 1 capital, on solo and consolidated bases.[51] This threshold intends to protect covered banks/QBs' from a sudden failure or default of a counterparty or group of connected counterparties and to facilitate monitoring by the BSP of concentration risk in the financial system.

The guidelines on recovery plans[52] of banks were likewise amended to reduce the risk posed by a bank's distress or disorderly failure to the stability of the financial system. The recovery planning requirements were expanded to not only cover domestic systemically important banks but all other banks, subject to proportionality. A bank is expected to develop a concrete and reasonable recovery plan that is linked to its risk management framework, internal capital assessment process or capital planning, liquidity plans, and business contingency plans.

In May 2022, the BSP launched the Rural Bank Strengthening Program which aims to enhance the operations, capacity, and competitiveness of RBs, considering their vital role in promoting countryside development and inclusive economic growth. In line with this, the BSP amended the minimum capitalization requirements of RBs in August 2022[53] to levels that will enable them to enhance their risk management systems, upgrade resources and manage operational costs, meet prudential standards, and accelerate digital transformation.

Regulations in the pipeline include the adoption of Basel III capital standards related to credit and operational risks, and guidelines on operational resilience and model risk management system, which will further build the banks' capacity and strengthen their risk governance.

Parallel to these, the BSP's surveillance toolkit includes the conduct of regular and ad-hoc stress tests/simulations and the use of forward-looking indicators which will help BSP monitor the trend of NPLs of the banking system.[54]

On mitigating IT and cybersecurity threats

The BSP has intensified its cyber-surveillance efforts through the monitoring of major cyber incidents and disruptions and initiating routine surveys on COVID-19-themed cyber threats and attacks. As cyber threats span various industries and organizations, the BSP has reinforced collaboration and active engagement with key stakeholders, including law enforcement agencies, financial regulators, and supervisors from other jurisdictions.

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[51] Circular No. 1150 dated 23 August 2022 (Prudential Framework for Large Exposures Monitoring Threshold).
[52] Circular No. 1158 dated 18 October 2022 (Guidelines on the Recovery Plan of Banks).
[53] Circular No. 1151 dated 24 August 2022 (Amendments to the Minimum Capitalization of Banks)
[54] Forward-looking asset quality metrics show the easing of NPLs in the next 90 days. Stress test exercises also confirm the banking system's ability to withstand unexpected credit losses, including a material downturn in the property sector.

To counter the evolving information technology and cybersecurity threats as well as foster responsible digital innovation, the BSP has developed a Cybersecurity Roadmap covering three key areas, namely capacity building, collaborative engagements, and continuing policy framework and supervisory enhancements to institutionalize cyber-resilience in the financial services industry. The BSP issued guidelines that require supervised entities to adopt a robust fraud management system as well as a consumer education and awareness program. Likewise, the BSP constantly engages with supervised entities to ensure that cyber resilience strategies remain effective vis-à-vis evolving threats.

The BSP has also embarked on a pioneering project dubbed Project ASTERisC* or the Advanced SupTech Engine for Risk-Based Compliance, a unified RegTech and SupTech solution. Through this project, regulatory supervision, reporting, and compliance assessment of financial institutions' cybersecurity risk management can be done seamlessly. The system will also enable deeper analyses that will help the BSP implement risk-based and proactive supervisory decisions and set the policy direction on cybersecurity.

Corollary to this, the BSP rolled out the regulatory sandbox framework[55] to better understand and supervise emerging technologies and business modes. The framework institutionalizes the BSP's Test and Learn approach for financial innovations, to promote a more active, evidence-based, and results-driven assessment of new and emerging financial solutions. It also enables participants in the sandbox to explore the potential of new technologies without posing significant risks to financial stability or harming consumers. The framework also provides alternative approaches to the sandbox. Applicants for regulatory sandbox experimentation may use a simplified approach known as "Regulatory Sandbox Lite" which is available to supervised entities for financial products or services that are already within the scope of existing regulations and would run on a shorter timeline.

Recognizing the role of digital platforms in driving greater efficiency in the delivery of financial products and services and in expanding reach into the unserved and underserved areas in the country, the BSP issued the regulatory framework for digital banks, as well as the clarificatory guidelines for all prospective applicants for new banks. The guidelines[56] set out the BSP's supervisory expectations on corporate and risk governance and the applicable prudential regulations on capital, leverage, and liquidity of digital banks. Specifically, the governance expectations, Basel III standards, and prudential reporting requirements applicable to universal and commercial banks shall also apply to digital banks given their nationwide market reach and ready ability to expand operations. The guidelines also prescribe the prudential limits on equity investments in allied undertakings, the required reserves against deposit and deposit substitute liabilities, and reporting requirements of digital banks. As of end-December 2022, there are six (6) fully operating digital banks in the Philippines.[57]

On safeguarding the financial system against climate and environment-related risks

In terms of the sustainability agenda, the BSP has been at the forefront of promoting sustainable finance in the country. As part of its strategic initiatives, the BSP formulates measures towards a more sustainable banking environment. These include a combination of prudential and non-prudential measures.

Recognizing the potential of banks' investment activities to further the pursuit of sustainability in the banking sec, the BSP issued regulations providing expectations on the integration of sustainability principles in investment activities of banks[58] as part of a series of guidelines implementing the Sustainable Finance Framework. The approved regulations cover investments of banks in debt and equity securities that are lodged in the banking book. Under the guidelines, banks shall consider their sustainability strategic objectives and risk appetite in their

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[55] Circular no. 1153 dated 5 September 2022 (Regulatory Sandbox Framework)
[56] Circular No. 1154 dated 14 September 2022 (Prudential Requirements Applicable to Digital Banks, and Amendments to Relevant Provisions of the Manual of Regulations for Banks and Non-Bank Financial Institutions and Manual of Regulations on Foreign Exchange Transactions)
[57] Includes six (6) digital banks, namely: Maya, Overseas Filipino, (OF) Bank, Tonik, Unobank, UnionDigital Bank and GoTyme. The OFBank (TB) and Tonik Bank (RB) had their banking classifications converted to digital banks.
[58] Circular No. 1149 dated 23 August 2022 (Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks).

investment activities as well as ensure that their investments do not contribute to sectors considered to have harmful effects on the environment or society.

The BSP also issued guidance on the Implementation of the Environmental and Social Risk Management (ESRM) System[59] in September 2022 to inform banks on the initial steps or approaches that may be considered in developing an ESRM System. It describes the BSP's minimum expectations and provides information and references to publications of the Network for Greening the Financial System (NGFS) and the Basel Committee on Banking Supervision (BCBS), among others, to support the development of an ESRM System.

As part of its mandate to support inclusive growth, the BSP advocated for the passage of the Republic Act (R.A.) No. 11901 otherwise known as the Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022, which lapsed into law on 28 July 2022. The new law further promotes private sector financing to the agricultural sector and establishes a special fund that will be used to finance well-defined capacity- and institutional-building programs and activities of farmers and fisherfolk cooperatives and organizations that will improve their viability and productivity. As a form of scaling up sustainable finance, the said Law and its Implementing Rules and Regulations (IRR)[60] recognize sustainable finance as a form of compliance with mandatory agriculture, fisheries, and rural development financing.

Incentives have been put in place to fuel the participation of financial institutions in promoting sustainability in banking. Sustainable projects, subject to certain parameters, are excluded from prudential limits such as the (i) 30 percent unsecured individual ceiling for DOSRI if the sustainable project falls within the definition of project finance under existing regulations, (ii) 25 percent real estate limit and real estate stress test limits if the project is for public use, and (iii) large exposures monitoring threshold if the exposure involves MSMEs, a related group of banks, or project finance.

[59] Memorandum No. M-2022-042 dated 29 September 2022.

[60] Circular No. 1159 dated 4 November 2022 (Implementing Rules and Regulations of the Mandatory Agriculture, Fisheries, and Rural Development Financing under R.A. No. 11901 or the "The Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022").

Government-Owned and -Controlled Corporations

The Department of Finance (DOF) continues to uphold its mandate to rigorously pursue fiscal and policy initiatives to instill financial discipline among GOCCs. Given the size of the government-corporate sector, the DOF closely monitors 24[61] major financial and non-financial GOCCs, which include the government financial institutions (GFIs) and social security institutions (SSIs).

The total assets of the 24 major GOCCs comprise 83 percent of the total assets of the government-corporate sector. Of the assets of the 24 major GOCCs, 66 percent pertain to GFIs and SSIs. The GFIs and SSIs are in the bracket of large government corporations in terms of assets and revenue size considering the magnitude of funds they manage and given the merger of LBP and the United Coconut Planters Bank.

Impact of PFRS Adjustment on Insurance Contract Liability

The results of operations in the Sector further contracted from a net loss of ₱125.12 billion in 2021 to a net loss of ₱252.74 billion in 2022. This is primarily due to continuing changes in assumptions (e.g. discount rate) relative to the recognition of Insurance Contract Liability by SSIs. The recognition of an Insurance Contract Liability was in compliance with the directive by the Department of Finance to adopt starting 2021 the Philippine Financial Reporting Standards 4 (PFRS 4) to promote a fair and transparent presentation of the SSIs' financial performance.

The recognition of the PFRS 4 – Insurance Contracts, in the financial reporting by the SSIs, namely, the Social Security System (SSS), the Government Service Insurance System (GSIS), and the Philippine Health Insurance System (PhilHealth), of future claims from these institutions continues to be prominent in their results of operations. The GSIS recognized an increase in Insurance Liability of ₱138.12 billion in 2022, while the SSS, given its wider coverage, recognized a larger increase in Insurance Contract Liability of ₱478.11 billion in 2022. The PhilHealth, on the other hand, recognized a decrease in Insurance Liability of ₱747.38 billion.

The adjustments for Insurance Contract Liability, however, do not affect the institutions' current cash flows. These institutions can still meet their current obligations to their members. Additionally, pursuant to the charters of these corporations, the fulfillment of these obligations is assured by the Republic.

GOCC's Financial Performance

Prior to the adjustments in Insurance Contract Liability in the SSIs' accounts, there is an improvement in the financial performance of the 24 major GOCCs by 24 percent from a net income before tax and government subsidies of ₱101.45 billion in 2021 to ₱125.95 billion in 2022. The largest growth in terms of revenues and net income before taxes and subsidies were primarily from the SSIs, particularly, PhilHealth and SSS, and LBP. The growth in SSIs' net income was attributed to the implementation of higher premium contribution rates pursuant to the Universal Health Care Act and SSS Act and an increase in member contributors while the growth in LBP's net income is in view of substantial earnings from interest income on loans and investments and sale of assets.

[61] This refers to the 24 major financial and non-financial government-owned or –controlled corporations (GOCCs), namely, Bases Conversion Development Authority (BCDA), Civil Aviation Authority of the Philippines (CAAP), Development Bank of the Philippines (DBP), Government Service and Insurance System (GSIS), Land Bank of the Philippines (LBP), Light Rail Transit Authority (LRTA), Local Water Utilities Administration (LWUA), Manila International Airport Authority (MIAA), Metropolitan Waterworks and Sewerage System (MWSS), National Development Corporation (NDC), National Electric Administration (NEA), National Food Authority (NFA), National Housing Authority (NHA), National Irrigation Administration (NIA), National Power Corporation (NPC), National Transmission Corporation (TRANSCO), Philippine Guarantee Corporation (PGC), Philippine Health Insurance Corporation (PHIC), Philippine National Oil Company (PNOC), Philippine National Railways (PNR), Philippine Ports Authority (PPA), Philippine Economic Zone Authority (PEZA), Power Sector Assets and Liabilities Management Corporation (PSALM), and Social Security System (SSS).

Other government corporations that contributed to the increase in net income are DBP, MIAA, NDC, PNOC, and BCDA primarily due to efficient management of their assets through sale or investment. This was however tempered by a drop in the net income of PSALM and NPC.

While certain GOCCs, such as the transport sector, were still affected by the global outbreak of COVID-19, inflationary pressures, and other external shocks affecting the country, these GOCCs have shown stronger financial performance compared with last year's performance as passenger growth is expected to grow further in subsequent years.

Table 10. Philippines: Liabilities of the Government Corporate Sector and 24 Major GOCCs, 2020-2022
(in billion pesos)

	Audited, 2020	Audited, 2021	2022		
			Unaudited	% of Total Liabilities	% of GDP
TOTAL GOCCs	15,368.96	16,639.73	17,108.01		85.78%
Share of 24 Major GOCCs (%)	95.12%	95.15%	96.98%		
TOTAL 24 Major GOCCs	14,618.39	15,832.48	16,591.42	96.98%	83.19%
MNFGCs	1,478.21	1,438.72	1,812.03	10.59%	9.09%
PSALM	632.01	578.34	568.19	3.32%	2.58%
TRANSCO	173.91	164.40	515.74	3.01%	2.59%
MWSS	169.23	200.21	200.84	1.17%	1.01%
NFA	203.82	165.92	142.04	0.83%	0.71%
NIA	88.64	115.90	111.27	0.65%	0.56%
PPA	10.89	9.60	63.72	0.37%	0.32%
LRTA	58.82	59.50	60.86	0.36%	0.31%
BCDA	37.38	43.64	37.47	0.22%	0.19%
PNR	33.44	34.98	36.15	0.21%	0.18%
NHA	23.90	20.15	20.28	0.12%	0.10%
NPC	17.66	19.08	19.94	0.12%	0.10%
LWUA	5.25	5.55	8.25	0.05%	0.04%
NDC	5.78	5.65	6.98	0.04%	0.04%
MIAA	6.39	5.34	6.06	0.04%	0.03%
CAAP	3.50	3.74	5.89	0.03%	0.03%
PNOC and Subsidiaries	4.08	3.85	5.50	0.03%	0.03%
PEZA	1.75	1.71	1.67	0.01%	0.01%
NEA	1.77	1.19	1.18	0.01%	0.01%
GFIs/SSIs	13,140.18	14,393.76	14,779.39	86.39%	74.11%
DBP	977.95	1,082.44	965.58	5.64%	4.84%
PGC	36.86	33.70	35.38	0.21%	0.18%
LBP	2,189.69	2,374.19	2,932.56	17.14%	14.70%
PhilHealth	1,126.18	1,163.49	425.39	2.49%	2.13%
GSIS	2,042.25	2,100.67	2,236.00	13.07%	11.21%
SSS	6,767.25	7,639.27	8,184.48	47.84%	41.04%

Source: GOCCs' Loan Status as submitted to DOF-CAG via GOCCs Liabilities and Monitoring System (GLAMS)
GDP: P22.02 trillion (current prices)

Based on the latest financial statements as of 31 December 2022, the 24 major GOCCs listed above had aggregate domestic and foreign liabilities of approximately ₱16.59 trillion which represented 96.98 percent of the liabilities owed by GOCCs and 83.19 percent of GDP, mainly attributed to the Insurance Contract Liability of the SSIs. Without considering the Insurance Contract Liabilities, the liabilities represent 30.10 percent of GDP. Out of the ₱16.59 trillion total liabilities of GOCCs, total NG-guaranteed debt and contractual obligations amount to ₱465.26 billion or 2.33 percent of GDP.

Contingent liabilities of the NG (i.e. NG-guaranteed debt) to the GOCCs remain to be minimal and manageable as the NG continues to monitor and scrutinize GOCC obligations before sovereign guarantees. The guaranteed debt of the GOCCs was covered through their respective charters or Republic Act No. 4860, as amended (Foreign Borrowing Act). The NG extended guarantees to GOCCs' obligations in order to support the bankability of their investment, or as required by bilateral and multilateral lending institutions. The outstanding guaranteed debt of all GOCCs further declined to 1.97 percent (Table 11) of GDP in 2022 compared to 2.26 percent of GDP in 2021 and 2.39 percent of GDP in 2020.

Table 11. Philippines: Outstanding Government Guaranteed Debt to GOCCs, 2020-2022
(in billion pesos)

	2020	2021	2022		
			Amount	% to Total Guaranteed Debt	% of GDP
MNFGCs	330.61	339.90	328.27	83.37%	1.65%
PSALM	243.12	249.34	266.66	67.72%	1.34%
NFA	51.04	57.07	30.38	7.71%	0.15%
BCDA	18.53	17.67	15.12	3.84%	0.08%
MWSS	8.17	7.85	9.46	2.40%	0.05%
LWUA	2.04	1.89	1.95	0.50%	0.01%
PPA	2.75	2.31	1.88	0.48%	0.01%
LRTA	2.59	2.01	1.47	0.37%	0.01%
PNR	1.04	0.99	0.87	0.22%	0.00%
NPC	0.52	0.47	0.44	0.11%	0.00%
PEZA	0.07	0.06	0.04	0.01%	0.00%
MIAA	0.74	0.25	0.00	0.00%	0.00%
GFIs	71.89	63.75	50.96	12.94%	0.26%
DBP	46.22	40.17	35.66	9.06%	0.18%
LBP	25.67	23.58	15.30	3.89%	0.08%
Others	16.59	15.42	14.54	3.69%	0.07%
NHMFC	10.80	10.68	10.52	2.67%	0.05%
SBMA	4.87	4.62	3.93	1.00%	0.02%
TIEZA	0.15	0.12	0.08	0.02%	0.00%
AFAB	0.01	0.00	0.00	0.00%	0.00%
SBGFC	0.75	0.00	0.00	0.00%	0.00%
TOTAL	419.08	419.08	393.78	100.00%	1.97%

Source: GOCCs' Loan Status as submitted to DOF-CAG via GOCCs Liabilities and Monitoring System (GLAMS)
GDP: P19.94 trillion (at constant 2018 prices)

Of the total NG-guaranteed debt to the Sector, 68 percent or ₱266.66 billion refers to PSALM's NG-guaranteed domestic and foreign borrowings. Pursuant to Republic Act No. 9136 or the Electric Power Industry Reform Act, all assets and outstanding liabilities of PSALM will revert to and be assumed by the NG at the end of PSALM's life in 2026.

There was a drop in outstanding NG-guaranteed debt by ₱25.30 billion or 6.04 percent from ₱419.08 billion in 2021 to ₱393.78 billion in 2022, mainly attributed to the conversion of NFA's NG-guaranteed debts to NG advances. The provision of NG advances gradually reduces NFA's guaranteed debts and shifts NFA's bank loans to NG advances. The outstanding NG advances will be converted into a subsidy until 2026, assuming all recommended conversion will be approved in the annual budget. This mechanism is in line with the avenue being taken to financially restructure NFA and reduce its financing cost, following the passage of the Rice Tariffication Law (RTL), which limits the role of NFA to rice buffer stocking.

As provided for under P.D. 1967 and Administrative Order No. 10, series of 1998, NG provides advances for the debt servicing of the guaranteed GOCCs' obligations to avoid defaulting on guaranteed commitments (Table 12). Total outstanding advances from the NG to the GOCCs, inclusive of interest, comprise 1.73 percent or ₱295.87 billion of the total liabilities in the Sector as of the end of 2022. The outstanding NG advances, inclusive of interest, increased by 11 percent or ₱28.34 billion from ₱267.53 billion in 2021 to ₱295.87 billion in 2022, primarily to repay foreign and domestic debts of NFA and LRTA, in view of their financial difficulties. In addition to guaranteeing on GOCCs' borrowings, the NG had provided performance undertakings on GOCCs' obligations under BOT projects. These BOT projects included the power projects of the NPC/PSALM and the Casecnan Multi-Purpose Project of the NIA.

Table 12. Philippines: Outstanding NG Advances to GOCCs, 2020 – 2022
(in billion pesos)

Particulars	2020	2021	2022
24 Major GOCCs	224.60	236.27	264.41
NFA	58.14	71.36	94.58
NIA	69.92	70.77	71.86
LRTA	36.60	39.66	42.60
PNR	27.24	27.62	28.04
NPC/PSALM	23.09	23.37	23.73
PGC	8.37	3.05	3.07
NDC	0.37	0.37	0.46
MWSS	0.04	0.07	0.07
LWUA	0.01	0.00	0.00
NEA	0.84	0.00	0.00
Other GOCCs	31.12	31.26	31.46
TOTAL	255.72	267.53	295.87

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

Net Budgetary Flows

Budgetary support is extended to GOCCs for the implementation of priority programs of the government such as health insurance, irrigation, and social housing programs (Table 13).

Table 13. Philippines: Net Budgetary Flows to GOCCs, 2020 – 2022
(as a percent of GDP, unless otherwise specified)

Particulars	2020	2021	2022
I. NG Flows from GOCCs	0.01	0.00	0.00
(in billion pesos)	155.97	77.72	97.58
Dividend	135.13	57.55	68.34
Interest on NG Advances	0.22	1.56	0.23
Guarantee Fees Collected	1.74	1.72	1.57
Forex Risk Cover Fee	1.46	1.31	1.17
Airport Terminal Fee	0.38	0.06	0.29
II. NG Flows to GOCCs	0.01	0.01	0.01
(in billion pesos)	263.94	258.16	238.77
Subsidy	229.02	192.77	200.41
Equity	12.81	47.52	11.16
Net Lending	22.11	17.88	27.21
NET NG FLOWS (I-II)	-0.01	-0.01	-0.01
In billion pesos	-107.97	-180.44	-141.19

Source: BTr
a/ Includes NG Share in PAGCOR's Income and MIAA Profits

The PhilHealth and NIA comprise 60 percent or ₱120.71 billion of the total NG subsidy in 2022. These GOCCs continue to heavily rely on government subsidies to finance premium contributions of indigents and senior citizens and to finance the construction and rehabilitation of national irrigation systems. The largest increase in subsidy in 2022 versus 2021 was provided to NPC to finance its operations and fuel expenses. The fuel price hike in the world market brought by the Russia-Ukraine conflict directly affected its financial operations which cater to Small Power Utilities Group (SPUG) areas (Table 14).

Table 14. Philippines: Subsidies to the Government Corporate Sector and 24 Major GOCCs, 2021-2022
(in billion pesos)

	2021	2022	
		Amount	% of Total Subsidies
TOTAL GOCCs	192,767	200,410	
Share of 24 Major GOCCs (%)	89.51%	86.29%	
TOTAL 24 Major GOCCs	172,545	172,924	
MNFGCs	91,090	92,534	46.17%
PSALM	8,000	8,000	3.99%
NFA	7,000	7,001	3.49%
NIA	38,311	40,662	20.29%
PPA	-	273	0.14%
LRTA	1,020	1,019	0.51%
BCDA	4,848	4,581	2.29%
PNR	1,942	1,016	0.51%
NHA	25,713	17,125	8.54%
NPC	1,210	6,587	3.29%
LWUA	735	218	0.11%
CAAP	1,533	2,439	1.22%
NEA	778	3,613	1.80%
GFIs/SSIs	81,455	80,390	40.11%
LBP	476	5	0.00%
PhilHealth	80,979	80,048	39.94%
SSS	-	337	0.17%

Source: BTr

Direct support still outweighs the GOCC contributions/ remittance to the NG in 2022 with net outflows of ₱141.19 billion. On the other hand, despite the pandemic, the NG continues to receive GOCC remittances in the form of dividends, NG share on income, and guarantee fees, among others. GOCCs contribution of ₱97.58 billion to the revenue generation efforts of the NG forms part of its total remittances and represented 30 percent of total non-tax revenues in 2022. Out of the ₱97.58 billion remittances from GOCCs, 70 percent represents dividend remittances.

Table 15. Philippines: Top 20 Dividend Remittances from GOCCs, 2020-2022
(in billion pesos)

GOCC	2020	2021	2022	Total
Bangko Sentral ng Pilipinas	40.53	15.90	17.41	73.83
Philippine Deposit Insurance System	17.98	7.11	12.84	37.93
Philippine Amusement and Gaming Corporation	17.00	6.00	6.00	29.00
National Transmission Corporation	-	10.78	2.23	13.00
Philippine Ports Authority	5.05	3.76	4.08	12.90
Tourism Infrastructure and Enterprise Zone Authority	12.00	-	-	12.00
Landbank of the Philippines	-	-	8.45	8.45
Philippine Reclamation Authority	4.40	2.20	0.25	6.86
Civil Aviation Authority of the Philippines	6.00	-	-	6.00
Manila International Airport Authority	6.00	-	-	6.00
Power Sector Assets & Liabilities Management Corporation	0.09	-	5.89	5.98
Philippine National Oil Company	5.00	0.50	0.46	5.96
Philippine Charity Sweepstakes Office	2.27	1.24	1.57	5.08
National Power Corporation	4.00	0.90	-	4.90
PNOC Exploration Corporation	3.00	1.00	0.31	4.31
Bases Conversion Development Authority	1.63	1.72	0.89	4.23
Philippine Economic Zone Authority	2.00	0.70	0.91	3.61

GOCC	2020	2021	2022	Total
Subic Bay Metropolitan Authority	0.54	1.21	1.13	2.89
Clark Development Corporation	1.13	0.86	0.72	2.71
Metropolitan Waterworks and Sewerage	0.36	0.62	1.54	2.52
Other GOCCs	6.13	3.04	3.68	12.84
TOTAL	135.13	57.55	68.34	261.02

Social Security Institutions (SSIs)

The total assets of the Government Service Insurance System (GSIS) as of 31 December 2022 is valued at 1,540,046,694,818 with a net income from operations amounting to ₱75,539,914,661. The GSIS posted a negative surplus in 2022 at (₱546,068,520,189).[62]

Table 16. Philippines: GSIS Cash Surplus (Deficit) in IMF Format, 2020-2022
(in million pesos)

	2020		2021		2022	
	FULL YEAR		FULL YEAR		FULL YEAR	
Revenues	102,678	211,786	105,118	243,469	110,598	237,151
Members Contributions (S-1)	79,935	149,175	82,677	155,400	87,055	164,337
of which Contributions (S-1A)						
Investment Income and Other Earnings (S-2)	22,743	62,611	22,441	88,069	23,542	72,814
of which from Holding of National Government Securities (S-2A)						
Expenditures		182,189		165,964		131,521
Benefits (S-3)		122,978		148,290		162,756
Operating and other Expenses (S-4)		12,611		10,329		11,051
Policy Lending to Public and Private Sector (S-5)		46,600		7,345		(42,286)
Surplus (+)/Deficit (-)		29,596		77,506		105,630

2020 Full Year Audited Cash Surplus (Deficit)
2021 Full Year Audited Cash Surplus (Deficit)
[1]2022 Full Year Unaudited Cash Surplus (Deficit)

GSIS, by virtue of Republic Act No. 656, as amended by Presidential Decree No. 245, is mandated to insure all government properties and assets, except those owned by a municipal government below first class, with insurable interest. For the period 1 January 2022 to 31 December 2022, the total sum insured (TSI) across all lines of GSIS is at ₱2,409,929,865,208.96.

As a result of the enhanced information dissemination campaign of RA 656 and COA Circular No. 2018-002, an increase of 16.03 percent, or ₱924.075 million, in gross general insurance premium was posted by GSIS in CY 2022.

To provide rapid access to early recovery financing and support the government's disaster risk finance and insurance strategy, GSIS, reached out to pilot cities[63] for the development of a parametric disaster insurance scheme under the Philippine Disaster Resilience Improvement Program in the areas. This is in coordination with the Department of Finance, as a key counterpart agency, and the Asian Development Bank, for technical assistance.

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[62] As submitted to COA on 26 Apr 2023. Effective 2020, GSIS implemented PFRS4. Insurance Contract Liabilities/ Reserve is under liabilities.
[63] Angeles, Bacolod, Baguio, Butuan, Calapan City, Caloocan, Cavite, Cebu, Dagupan, Davao, Iloilo, Iriga, Laoag, Makati, Manila, Marikina, Paranaque, Pasig, Quezon City, Sorsogon, Tacloban, Tagaytay and Trece Martires

Risk Position on Pending Bills

Lowering of Mandatory and Optional Retirement Ages. The GSIS has reservations about the various proposals for lowering the mandatory and optional retirement age. These 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 retirement age entails additional costs and an increase in liabilities.

Table 17. GSIS Social Insurance Fund (SIF)
2021 Closed Group Valuation

Scenario*	Fund Life (Closed Group)	Insurance Contract Reserves (ICR)	Increase in ICR	% Increase
Base Case: Current Policy	2053	₱2.07 Trillion		
Scenario 1	2042	₱2.91 Trillion	₱0.84 Trillion	40.58%

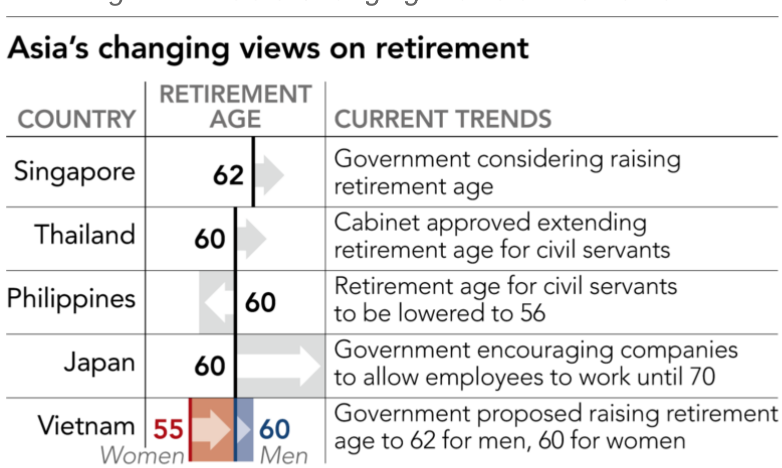
**It must be noted that the results of this study were premised on a specific set of demographic, financial, and actuarial assumptions, based on available data at time of the study.*

The table above displays the comparison of the current policy (base case) and scenario 1. The first scenario lowers the optional retirement age from 60 to 56 years old, while maintaining the mandatory retirement age at 65. The fund life is reduced to the year 2042, or 11 years from the base case. Meanwhile, the estimated increase in the insurance contract reserves (ICR) amounts to ₱840 billion.

The lowering of the retirement age in general, whether mandatory or optional, necessitates an additional explicit funding source.

Moreover, ASEAN policymakers are already beginning to address the aging problem, which runs counter to the proposal in the Philippines. Population aging has made it imperative for Asia to develop pension reforms. The governments of Singapore, Thailand, Japan, and Vietnam have taken the initiative of raising their retirement age. Only the Philippines is deviating from the trend.

Figure 4. Asia's Changing Views on Retirement



Source: Nikkei Asian Review (June 2019)

As an alternative to imposing a blanket imposition of lowering the retirement age for the entire government service, an offer of early retirement to government employees may be resorted to. This will have less of an impact on the actuarial life of GSIS and will support the Marcos Administration's policy of "right-sizing" the government. Selective imposition of lower retirement age on certain offices/positions is another option. This will be beneficial for government offices where advanced age is not a liability and is actually an asset given the wisdom that seniority brings.

The impact on the fund life of GSIS and the sustainability of the SIF must also be taken in consideration. The interest and welfare of the present members and future pensioners must not be reduced to favor those who will benefit from the implementation of the proposed early retirement bill.

Granting Additional Benefits to Barangay Health Workers (BHWs). To become members, social insurance premium contributions amounting to 21 percent of BHW's total compensation must be remitted to GSIS. (A total of 9 percent shall be paid by the employee, while the employer shoulders the remaining 12 percent.) Remittance of the contributions should be correctly, regularly, and promptly remitted to GSIS.

Under Republic Act (RA) 8291 a minimum of 15 years of service is required to be entitled to pension at the minimum age of 60. It is therefore recommended that proposals to extend compulsory GSIS membership to BHWs be coupled with a thorough examination of the budgetary requirements involved and how the benefits will be funded to ensure sustainability. It is further recommended that a provision be included stating the government agency to be held responsible for the collection and remittance of premium payments of BHWs.

Pension Reform for Military and Uniformed (MUP) Personnel**.** GSIS maintains its positions on various MUP bills. A separate and independent entity must administer and manage the MUP pension and benefits. GSIS advocates to take the role of an external manager of financial assets. GSIS should not be held accountable for the financial sustainability or actuarial risk and administration of the benefits and pension scheme of MUP. There should be no commingling of the MUP funds with the GSIS administered funds in keeping with the spirit of RA 8291. MUP system should be contributory in nature and there should be a government guarantee provision. GSIS shall not advance funds to the MUP Trust Fund Committee from GSIS-administered funds.

Foreign Affairs Retirement and Disability Benefits. The bills intend to increase the monthly pensions and disability benefits of the retirees of the Department of Foreign Affairs (DFA). The additional amount shall be the difference between their GSIS monthly pension and the highest monthly salary of an incumbent officer or employee occupying the same position or equivalent rank the retiree last held while in active service. The additional pension will be funded from any DFA savings or the General Appropriations Act (GAA) to be sourced possibly from the DFA's annual consular income as a percentage thereof.

Governance Commission for GOCCs (GCG)

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

A. Current Progress of GCG Mandates

1. The Governance Commission continues with the streamlining of the GOCC Sector by recommending five (5) GOCCs for abolition and five (5) for privatization to the Office of the President by the end of 2022. From 157 in 2011, only 118 GOCCs remain to be going concerns for the Governance Commission in 2022. This figure includes the United Coconut Planters Bank (UCPB) and the additional 20 Coconut Industry Investment Fund Companies, which were all declared as GOCCs in 2016. For the previously approved abolitions and privatizations, the Commission continued to oversee the implementation of the liquidation process to ensure that all progressions are in accordance with the law.

2. With the signing of E.O. No. 150 in 2021 by former President Rodrigo Roa Duterte, the new CPCS for GOCCs was thus approved, laying the foundation for the attainment of a standardized compensation system that shall promote performance-driven and efficient GOCCs. As the implementing agency of the CPCS by virtue of E.O. No. 150 and R.A. No. 10149, the GCG, together with the DBM, established the CPCS Implementing Guidelines which included guidelines relating to affordability, step increments, hiring rates, overtime pay, night shift differential, merit increases, and separation pay programs, taking into consideration prevailing practices in the private sector and the guiding principles provided in the CPCS.

   As of 30 June 2023, the GCG has issued the Authorization to Implement (ATI) the CPCS to seventy-one (71) GOCCs who have submitted complete and compliant CPCS requirements.

3. E.O. No. 150 likewise provides for the periodic review of the CPCS, taking into account the performance of GOCCs, their overall contribution to the national economy, the possible erosion in purchasing power due to inflation, and other factors. With the timelines of the review of E.O. No. 150 and R.A. No. 11466 (Salary Standardization Law [SSL] of 2019) coinciding, the GCG En Banc, in 2022, resolved to allow the inclusion of the budget for the procurement of consultancy services for the review of the CPCS under E.O. No. 150 and SSL of 2019 in the FY 2023 National Expenditure Program (NEP) of GCG. The procurement of the said consultancy services is currently on-going. The results of the review shall then be submitted to the President of the Philippines for his approval.

B. Moving Forward in Pursuit of GCG Mandates

1. Under the proactive leadership of Chairperson Justice Alex L. Quiroz (ret.), the Anti-Corruption and Integrity Program (ACIP) has been introduced in GCG. Its objective is to ensure that G.R.E.A.T (which stands for Good Governance, Rightsizing, Efficiency, Accountability, and Transparency) is being applied by GCG and across GOCCs in the Governance Commission's bid to safeguard the Ten Trillion assets of the State, carried by the GOCCs, from dissipation and wastage of funds.

   In pursuance of this program, GCG is crafting the Seal of Integrity and Good Governance for GOCCs. Related thereto, aside from the validation of the performance scorecard of GOCCs, they shall be subjected to validations regarding handling complaints received by them. Also, fact-finding investigations are being done by GCG regarding anomalies and irregularities involving GOCCs. Further, lifestyle checks of the governing board members may be resorted to when directed by the Chairperson.

2. The Governance Commission has an ongoing study on the rationalization of GOCCs through abolition, decoupling of regulatory and commercial functions, and privatization; and

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

Box 2. Asset Liability Management Committee (ALCO)

The National Government recognizes the investment risk generated by Government-Owned and -Controlled Corporations (GOCCs), particularly, the Government Financial Institutions (GFIs). To support the risk mitigation efforts of the NG, the Department of Finance issued Department Order (DO) No. 005.2022 dated 10 February 2022 which institutionalized the Asset Liability Management Committee (ALCO) of the GFIs. The ALCO is chaired by the Secretary of Finance, with the heads of the following GFIs as members of the Committee:

1. Land Bank of the Philippines (LBP)
2. Development Bank of the Philippines (DBP)
3. Pag-IBIG Fund (Pag-IBIG)
4. Government Service Insurance System (GSIS)
5. Social Security System (SSS)
6. Philippine Health Insurance Corporation (PhilHealth)
7. Philippine Guarantee Corporation (PhilGuarantee)
8. Philippine Deposit Insurance Corporation (PDIC)
9. Philippine Crop Insurance Corporation (PCIC)

The ALCO proactively exercises oversight on GFI investments through both exposure and performance indicators. Exposure calculates the risk of the ALCO in a private conglomerate, while the performance metric determines the investment quality of each conglomerate in a risk-adjusted returns portfolio. GFIs are required to submit quarterly reports of their investment activities in private corporations and conglomerates for consolidation and analysis. In turn, the ALCO produces comprehensive reports and recommendations that enable the entities to contribute to the sound investment management of the National Government.

The ALCO has provided a venue for the National Government to monitor the investment holdings of the GFIs in private conglomerates across fixed-income, equities, and loans. In line with its mandate, the ALCO has set the individual exposure limit of investments in any single private conglomerate, including their subsidiaries and affiliates, at a 5 percent threshold of the combined net worth of all ALCO agencies. As of end-2022, the ALCO has succeeded in mitigating concentration risk, as the consolidated exposure of the GFIs per conglomerate remained within the said limit of 5 percent.

Through the ALCO, the GFIs have likewise benefited from the opportunities to adopt new practices from other institutions, improve their own operations, and work together to achieve economies of scale. The risk analysis, investment guidelines, and internal policies provided by the ALCO are already being incorporated by the GFIs in their own operations.

The PPP Center analyzed the government's financial liabilities, which may arise from firm liabilities, contingent liabilities, and equity contributions of the implementing agencies (IAs), in 46[64] PPP contracts (See Annex A for the list of projects). As compared with the last year's report, this number no longer includes the Casecnan Multi-Purpose Irrigation and Power Project, and the Ilijan Natural Gas Combined Cycle Power Plant (1200 MW Natural Gas Combined Cycle Power Project), following the end of the concession periods of these projects.

Under the Revised 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.

<u>Updates on the Financial Liabilities in PPP Contracts</u>

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 31 December 2022. Hence, the actual liabilities could be higher:

a. Based on available data, the 46 PPP contracts have a combined project cost of ₱1.83 trillion. This is lower than last year's total amounting to ₱1.92 trillion, following the removal of the 2 mentioned projects from the list of projects analyzed.

b. Based on available data, the total firm liabilities of the IAs to project proponents in 36 out of 46 PPP contracts amount to at least ₱406.27 billion over the life of the contracts. With a total of at least ₱499.36 billion of firm liabilities from the previous report, the ₱93.09 billion decrease is due to the exclusion of one of the concluded projects.

   Of the total amount of firm liabilities, at least ₱170.09 billion has been confirmed paid.

c. Based on available data, the total contingent liabilities of the IAs to project proponents in 5 out of 46 PPP contracts is ₱9.274 billion.

   i. One source of contingent liabilities is payment from an IA due to the occurrence of an uncertain event specified in the contract, such as the MAGA. For this reporting period, no new notices or claims for MAGA compensation were filed, aside from a claim filed on 30 July 2020 amounting to ₱0.185 billion due to a government guideline mandating social distancing during the COVID-19 pandemic.

   ii. Another source of contingent liabilities is the occurrence of a force majeure. By the end of 2022, no new notices for the occurrence of force majeure due to the COVID-19 pandemic were filed, apart from the notices filed by the seven project proponents in 2020. Given the easing of travel restrictions, the PPP Center does not foresee any increase in possible contingent liabilities due to these uncertain events specified in the contracts.

[64] As of 31 December 2022, there are a total of 210 awarded PPP projects, 157 of which are ongoing, and 53 are either terminated or concluded. Of the 157 ongoing projects, 109 are local projects, and 48 are national projects. Two of the 48 national ongoing projects are not part of the analysis due to pending confirmation from the respective IAs on the actual status of the projects.

iii. Another source of contingent liabilities is payment from an IA due to its failure to fulfill its obligations. For this reason, 4 project proponents filed claims for compensation with a cumulative amount of ₱9.089 billion. This is higher than the last year's report total amounting to ₱8.04 billion, as there were additional claims filed for this reporting period.

As of 31 December 2022, no payments have been made due to the occurrence of MAGA, force majeure, and failure to fulfill government obligations. Moreover, no notice of default has been filed by any of the project proponents of the 46 PPP contracts. The PPP Center does not foresee any contract being terminated in 2024.

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 the 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 31 December 2022, the total firm liabilities of the project proponents to the IA in 35 out of 46 contracts amount to at least ₱65.21 billion over the life of the contracts. Of this amount, at least ₱25.89 billion has been confirmed paid.

The project proponents may also incur contingent liabilities from their failure to fulfill an obligation, and failure to achieve key performance indicators, among others. Based on available data as of 31 December 2022, IAs have filed claims for compensation with a total amount of ₱327.45 million. With a total of ₱205.46 million of claims from the previous report, the ₱121.99 million increase is due to the new claims filed for payment of liquidated damages for delays in construction, and new KPI charges. Of the total claims, the project proponents already paid ₱32.10 million.

Other Policy Developments and Initiatives

Following the effectivity of the Revised 2022 BOT Law IRR on 12 October 2022, the PPP Center is updating the PPP Governing Board-issued PPP Projects Monitoring Framework and Protocols, which includes a new reporting system for fiscal exposure in PPPs. This will also consolidate all other reporting requirements for awarded PPP projects[65].

The proposed amendments to the monitoring protocols will also provide an established process for analyzing the government's financial exposure for projects implemented at the local level. Finally, the implementation of the new framework will include institutional partnerships with relevant government agencies.

The Permanent Committee's Guidelines on Managing Receipts from Public-Private Partnership Projects, which became effective on 15 March 2023, was also issued. It will provide guidance to the IAs in establishing and managing the trust liability bank account for receipts arising from PPP Projects.

Finally, the PPP Center is currently formulating a standard contract management manual that will provide guidance to the IAs in managing their PPP contracts. This manual will aid the IAs in ensuring compliance with contractual obligations, and managing the government contingent liabilities; thereby allowing the projects to move along the project cycle/milestones as smoothly as possible.

Technical Working Group on Contingent Liabilities (TWG-CL)

The Technical Working Group on Contingent Liabilities (TWG-CL), composed of the BTr, DOF, DBM, and PPP Center, regularly meets to monitor contingent liabilities in PPP contracts. It is responsible for implementing additional measures to manage government exposure in PPPs.

[65] These other reporting requirements are by virtue of the DBM-PPP Center Joint Memorandum Circular No. 2018-01, PPPGB Resolution No. 2018-12-02, and reporting on the government's financial liabilities in PPP contracts.

a. The amount of ₱1.0 billion was appropriated for the Risk Management Program (RMP) under the Unprogrammed Appropriations of the FY 2023 General Appropriations Act to cover contingent liabilities of the National Government in PPP projects. To date, no claims have been paid out of the RMP.

b. The TWG-CL is currently updating the RMP Implementing Guidelines for consistency with the Revised 2022 BOT Law IRR. The Guidelines lay out the coverage of the RMP, the conditions and procedures for its use, and reporting requirements by the IAs, among others.

Local Government Units (LGUs)

Fiscal Performance and Medium-Term Outlook

The final FY 2022 target of BLGF for locally sourced revenues (LSR), composed of real property tax, business tax, regulatory fees, and service/user charges, of provinces, cities, and municipalities (PCMs) was set at ₱263.48 billion. Per the preliminary FY 2022 data, the local revenue collections of PCMs reached the full-year target, exceeding the target with 103.49 percent efficiency or ₱272.688 billion in collections.

The total local revenue collections, including Other Receipts, reached ₱278.641 billion in FY 2022. Local tax revenues accounted for 73 percent of the collections, amounting to ₱204.574 billion, wherein ₱107.876 billion came from local business tax collections. Meanwhile, 24 percent of the collections, or ₱68.11 billion were sourced from non-tax revenues.

The total current operating income of LGUs, composed of local and external sources, increased by 26.49 percent or ₱86.762 billion from FY 2021 to FY 2022. The increase is mostly attributed to the national tax allotment (NTA), previously internal revenue allotment (IRA), of LGUs, which is 37.89 percent higher than the IRA in the previous year. Most of the provinces, cities, and municipalities remain NTA-dependent, recording a 69.40 percent contribution to the current operating income in FY 2022.

In terms of utilization of the Local Development Fund (LDF) from the NTA, preliminary FY 2022 data show that LGUs have a total LDF utilization rate of 68 percent. Municipalities have the most utilization at 75 percent, followed by the cities (65 percent) and provinces (62 percent), respectively.

In terms of surplus, preliminary FY 2022 reports show that LGUs have an aggregate amount available for appropriations/operations[66] or “free cash” amounting to ₱397.07 billion. This is equivalent to 1.80 percent of the country’s GDP. Cities have the most available funds which amount to ₱165.75 billion and comprise 42 percent of the total amounts, followed by municipalities, (34 percent) and provinces (24 percent). Most of the remaining amount available for appropriations was from first-income class LGUs with ₱72.71 billion or 77 percent among provinces, ₱89.49 billion or 54 percent among cities, and ₱58.12 billion or 42 percent among municipalities.

The BLGF issued 188 certificates of Net Debt Service Ceiling and Borrowing Capacity (NDSC/BC) in FY 2022, which is 49.46 percent less than those issued in FY2021. This low number of borrowing LGUs can be attributed to the 2022 local elections. The certificates issued have a total loan amount of ₱38.35 billion and a total BC of ₱98.85 billion. The average BC utilization is 56.70 percent.

As per the preliminary FY 2022 data, more than 99 percent of LGUs are still within the prescribed limit of the LGC in terms of debt servicing.

Following the target growth rate identified in the Philippine Development Plan 2023-2028, LGUs are expected to grow 6.5-8.0 percent annually.

Sources of Fiscal Risk

[66] The amount available for appropriations represents the “free cash” of the LGUs after deducting the following: 1) prior year’s accounts payables; 2) obligations not yet due and demandable; and 3) obligations for projects charged to continuing appropriations

While having more fiscal space is desirable to support local development projects and activities, this is also an indication of low absorptive capacity. The local government surplus reached ₱397.07 billion in FY 2022 which jumped by 42 percent from the previous year's surplus of ₱279.4 billion. These amounts could be attributed to the significant increase in the NTA in 2022, which is 38 percent higher compared to the 2021 allocations. Considering that 2022 is still a transition period, LGUs have not yet fully implemented the devolved functions under EO 138 which could have resulted in higher free cash in 2022. The absorptive capacity of the LGUs on the increased shares from NG could be better measured once EO 138 is fully implemented after the transition period.

A significant decrease in NTA was experienced by the LGUs in FY 2023, resulting from the significant decline in the revenue collection of the National Government in FY2020 due to the Covid-19 pandemic. The FY 2023 NTA shares of PCMs is ₱820.27 billion, which is ₱138.77 billion or 14.44 percent lower than the FY 2022 NTA shares of LGUs. This can affect the LGUs' financial management and ability to 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.

The DBM-DILG Joint Memorandum Circular (JMC) No. 2021-1, which provided the guidelines on the preparation of devolution transition plans of LGUs, indicated that all LGUs should be able to: (i) proactively address the projected decrease in their NTA for FYs 2023 and 2024 through the identification of possible revenue sources to address potential gaps; and (ii) project their future revenues by preparing a three-year forecast.

By transferring certain responsibilities to the LGUs, the National Government aims to promote sustainable and inclusive development by enabling LGUs to identify and address local development priorities and challenges. A delay in the submission of the DTPs from NGAs would have an impact on the DTPs of LGUs. These plans of NGAs are crucial for LGUs to identify the particular functions, projects, programs, and activities that will be fully transferred to them by the NGAs. This is necessary for the LGUs to create effective and efficient transition plans in order to take on the devolved functions properly.

As per the recent report of the DBM to the Office of the President, only three (3) among the involved twenty (20) NGAs have an approved DTP, fifteen (15) are still awaiting revision and for further evaluation by the DBM, and two (2) agencies have no submissions yet. On the side of the LGUs, 93.91 percent have already submitted their DTPs (41,105 out of 43,769) as per the monitoring dashboard of the DILG.

The 2022 local elections can have a significant effect on the plans of the LGUs. The implementation of programs and projects may be affected by the political climate in the locality. The new leadership may allocate more resources to programs that they deem important, and reduce funding for those that are not aligned with their priorities. The priorities of the local officials may not always align with the policies and programs of national agencies, leading to delays or modifications in the implementation of joint projects.

Considering the perennial risk of natural disasters that have significant financial effects on LGUs, especially on LGUs prone to typhoons and floods, the decrease in NTA also means less allocation for LGU disaster response. Under RA No. 10121, or the Philippine Disaster Risk Reduction Management Act of 2010, at least 5 percent of the estimated regular revenues of LGUs shall be allocated for Local Disaster Risk Reduction Management Fund (LDRRMF), in which 30 percent shall be used for Quick Response Fund (QRF) and 70 percent for disaster prevention and mitigation, preparedness, response, rehabilitation, and recovery. Based on the FY 2023 NTA, the estimated LDRRMF of all provinces, cities, and municipalities is ₱32.81 billion (₱9.43 billion for provinces, ₱9.47 billion for cities, and ₱13.90 billion for municipalities). This is 14.47 percent or ₱ 5.55 billion lower than the estimated LDRRMF in FY 2022.

Risk-Mitigating Measures and Initiatives

Acknowledging the difficulty currently being faced by various LGUs, the President has directed the review of functions that should be devolved to LGUs and that should remain with the National Government as well as the extension of the period for the devolution of some functions up to 2027.

To ensure continuous improvement in local treasury, the BLGF has been conducting capacity-building programs for LGUs, particularly for local treasurers, by offering learning sessions and training trainers. The focus of these programs is to enhance their knowledge and skills in various areas such as resource mobilization, revenue generation, local tax administration, real property valuation, assessment, fees and charges design, credit financing, and other related matters. Furthermore, the BLGF plans to conduct a series of rollouts on updated treasury and assessment manuals to provide essential updates to the LGUs on their day-to-day operations.

In terms of LGU borrowings, the BLGF has been continuously giving caution to the LGUs applying for loans considering the anticipated medium-term economic effects of the pandemic on their local revenue generation capacity. Amortization for existing and proposed loans is being simulated. LGUs that might possibly breach the statutory 20 percent limitation on debt services and those whose loan requirements already exceed the borrowing capacity are recommended by the BLGF to scale down their loan requirement, in coordination with the lending institution.

At the national level, the Real Property Valuation and Assessment Reform (RPVAR) bill, is considered a strategic component to ensure a progressive and sustainable revenue stream for the local governments 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 improve their local economy. The reform will make the property valuation system efficient, equitable, transparent, and reliable.

The proposed reform was approved on the third and final reading by the House of Representatives (HOR) as House Bill No. 6558 on 12 December 2022. There are five (5) Senate Bills[67] filed in the 19th Congress and technical working groups in the Senate of the Philippines are being conducted to discuss the said bills.

The BLGF is implementing the Local Governance Reform Project (LGRP), a project loan funded by the Asian Development Bank (ADB), which is set 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.

As of Q1 2023, a memorandum of agreement (MOA) has been entered into by selected LGUs and the DOF, pertinent to the menu of technical assistance being offered by the LGRP to include technical assistance in the updating of LGUs' tax maps and schedule of market values (SMVs), the conduct of Tax Compliance Reviews and Tax Impact Studies to allow legislating tax rates, and empowering LGUs to update and approve respective SMVs and local tax maps.

[67] Senate Bill Nos. 314, 693, 897, 1018, 1463 introduced by Senators Juan Miguel F. Zubiri, Ramon Revilla, Jr., Pia S. Cayetano, Jose Pimentel Ejercito, Jr., and Joel Villanueva

Brief Country Profile: A Country at Risk

The Philippines, being located along the Pacific Ring of Fire and the Typhoon Belt, remains vulnerable to natural disasters based on global risk indices and international reports analyzing disaster and climate events. Disasters arising from natural hazards have resulted in a large fiscal impact on the economic system. In the July 2022 Notre Dame-Global Adaptation Index (ND-GAIN) Country Index[68], the Philippines ranked 113th[69] out of 182 countries and is one of the countries with a high level of vulnerability[70] to climate change and a low level of readiness.[71] In addition, the country now tops the 2022 World Risk Index (WRI)[72] with the highest exposure to disaster risks (46.82[73]) among 192 countries.

The Philippines' disaster risk is partly due to its geography. Its location at the Pacific Ring of Fire indicates that the country is aligned with the boundaries of major tectonic plates, rendering it highly sensitive and vulnerable to powerful earthquakes. It also experiences a high frequency of typhoons, with accompanying damaging winds, rain, and storm surge due to its location in the Northwest Pacific Basin. Moreover, about 60 percent of the country's population and 10 percent of major cities are situated along the country's massive coastlines.[74]

Climate Projection of the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA).[75] Projections on seasonal temperature increase, rainfall change, and total frequency of extreme events nationally and in the provinces utilized the mid-range scenario outputs.[76]

- *Seasonal Temperature Change*. The Philippines will get warmer, more so in the relatively warmer summer months. Mean temperatures in all areas of the country are expected to rise by 0.9 C to 1.1 C in 2020 and by 1.8 C to 2.2 C in 2050.
- *Seasonal Rainfall Change*. The usually wet seasons become wetter with the usually dry seasons becoming also drier. These could lead to more occurrences of floods and dry spells/droughts respectively.
- *Extreme Temperature Events*. The number of days with a maximum temperature exceeding 35℃ is increasing in 2020 and 2050.
- *Extreme Rainfall Events*. Heavy daily rainfall will continue to become more frequent and extreme rainfall is projected to increase in Luzon and Visayas; however, the number of dry days is expected to increase in all parts of the country in 2020 and 2050.

Based on the latest disaster reports of the National Disaster Risk Reduction and Management Council, the combined damages to the infrastructure, and agriculture sector, among others brought by typhoons Agaton, Florita, Karding, and Paeng, as well as the magnitude 7.0 earthquake that hit the Province of Abra amounted to ₱28.4 billion. [77] Among the typhoons that hit the country in 2022, typhoon Paeng recorded the highest damage,

[68] The ND-GAIN Country Index summarizes a country's vulnerability to climate change and other global challenges in combination with its readiness to improve resilience.
[69] Philippines | ND-GAIN Index. (2022). Nd.edu. https://gain.nd.edu/our-work/country-index/rankings/
[70] ND-Gain Vulnerability Indicators: Food, Water, Health, Ecosystem Services, Human Habitat, and Infrastructure
[71] ND-Gain Readiness Indicators: Economic, Governance, and Social
[72] WorldRiskReport 2022 Focus: Digitalization N E W. (n.d.). https://weltrisikobericht.de/wp-content/uploads/2022/09/WorldRiskReport-2022_Online.pdf
[73] Classification: Very low (0.00-1.84), Low (1.85-3.20), Medium (3.21-5.87), High (5.88-12.88), and Very High (12.89-100.00)
[74] Highlights: IPCC AR6 WG1 and its relevance to the Philippines – OML Center. (2021, September 9). OML Center. https://www.omlopezcenter.org/20210909-highlights-ipcc-ar6-wg1-and-its-relevance-to-ph-faqs/?utm_source=rss&utm_medium=rss&utm_campaign=20210909-highlights-ipcc-ar6-wg1-and-its-relevance-to-ph-faqs
[75] Climate Projections. (n.d.). Climate Change in the Philippines. https://www.pagasa.dost.gov.ph/information/climate-change-in-the-philippines
[76] The mid-range emission scenario indicates a future world of very rapid economic growth, with the global population peaking in mid-century and declining thereafter and there is rapid introduction of new and more efficient technologies with energy generation balanced across all sources.
[77] *See* latest Situational Disaster Reports of the National Disaster Risk Reduction and Management, *available at* https://monitoring-dashboard.ndrrmc.gov.ph/page/situations/archive (last accessed 24 March 2023).

amounted ₱17.7 billion. An amount of ₱547.7 million worth of financial assistance and relief goods were distributed to the hard-stricken and affected areas.[78]

Impacts of Natural Disasters

Typhoon Odette (International name: Rai). Based on the Regional Rehabilitation and Recovery Programs (RRPs) adopted by the National Disaster Risk Reduction and Management Council (NDRRMC) on 29 June 2022, the total investment required for the rehabilitation of areas affected by TY Odette amounts to ₱180.16 billion.

Table 18. Summary of Investment Requirements by Region
(in billion pesos)

Region	2022	2023	2024	2025 and beyond	Total
MIMAROPA	6.56	4.58	3.22	12.71	27.07
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
Note: Totals may not add up due to rounding up.

7.0 Magnitude Abra earthquake. The total estimated cost of damages and losses from the 7.0 magnitude Abra earthquake are ₱3.37 billion and ₱0.40 billion, respectively.

Table 19. Damages, losses, and needs from the Abra Earthquake
(in billion pesos)

Region	Damages	Losses
CAR	3.11	0.38
I	0.26	0.01
TOTAL	3.37	0.40

Source: RRPs
Note: Totals may not add up due to rounding up.

Based on the RRPs adopted by the NDRRMC on 28 November 2022, the total investment required for the rehabilitation of areas affected by the earthquake amounts to ₱8.46 billion. This will cover the repair and rehabilitation of damaged infrastructures including cultural and historical sites, implementation of emergency cash transfer and cash-for-work programs as well as resettlement programs, and other rehabilitation activities.

Table 20. Summary of Investment Requirements by Region
(in billion pesos)

Region	2022	2023	2024	Total
CAR	3.12	3.37	-	6.49
I	0.60	1.18	0.20	1.98
TOTAL	3.71	4.55	0.20	8.46

Source: RRPs
Note: Totals may not add up due to rounding up.

Severe Tropical Storm Paeng (International name: Nalgae). The total estimated cost of damages and losses caused by Severe Tropical Storm Paeng are ₱12.37 billion and ₱4.29 billion, respectively.

[78] *See* Situational Report for TC Paeng (2022), available at https://monitoring-dashboard.ndrrmc.gov.ph/page/situation/situational-report-for-tc-paeng-2022 (last accessed 24 March 2023)

Table 21. Damages, losses, and needs from STS Paeng
(in billion pesos)

Region	Damages	Losses
CALABARZON	9.45	1.92
VI	2.92	2.37
Total	12.37	4.29

Source: RRP of Region VI and Draft RRP of CALABARZON (as of March 2023)

The total investment required for the rehabilitation of areas affected by STS Paeng as of March 2023 amounts to ₱5.88 billion.

Table 22. Summary of Investment Requirements by Region
(in billion pesos)

Region	2022	2023	2024	2025 and beyond	Total
CALABARZON	-	2.24	0.57	0.21	3.03
VI	0.18	2.28	0.39	-	2.85
Total	0.18	4.52	0.96	0.21	5.88

Source: RRP of Region VI and Draft RRP of CALABARZON (as of March 2023)
Note: Totals may not add up due to rounding up.

National Disaster Risk Reduction and Management Fund[79]

For FY 2023, the approved National Disaster Risk Reduction and Management Fund (NDRRMF) amounts to ₱20.5 billion[80], broken down as follows:

a. ₱19.5 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 DOH, crises resulting from armed conflicts, insurgency, terrorism, and other catastrophes occurring in the current or two (2) 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.

   The use of the NDRRMF is subject to the approval of the President, upon the recommendation of the Secretary of National Defense as NDRRMC chair for local disasters or the appropriate agency for international crises. Furthermore, reconstruction or rehabilitation projects shall be implemented by the appropriate department, agency, or LGUs with the capability to implement the projects concerned and subject to the guidelines provided under Section 96[81] of the General Provisions of the General Appropriations Act (GAA).

[79] The NDRRMF is intended "for aid, relief, and rehabilitation services to communities/areas affected by human-induced and natural calamities, and repair and reconstruction of permanent structures, including other capital expenditures for disaster operation, and rehabilitation activities."
[80] FY 2023 General Appropriations Act (GAA) RA 11639, page 733-735
[81] "…the National Government Agencies, such as DPWH, DA, NIA, DOH, DSWD, DepEd, DENR, DILG, and DOTr, may designate LGUs as implementing agencies for public works and infrastructure projects and other programs, services and facilities, including the construction of local roads and facilities" appropriated in this Act, subject to the following:
(a) The LGU has the capability to implement the foregoing by administration or contract and in accordance with the design, plan, specifications, and such other standards and policies of the National Government; (b) The LGU-recipient of nationally funded public works and infrastructure projects and other programs, services and facilities shall commit to fund the cost of maintenance and repairs thereof; and (c) The amounts appropriated for the nationally funded projects to be implemented by LGUs shall be released during the fiscal year to be deposited in a trust fund and shall be made available for disbursement for the purpose specified until 31 December 2024.
After the end of the validity period, any unreleased appropriations shall lapse, while undisbursed funds shall revert to the unappropriated surplus of the General Fund in accordance with Section 28, Chapter 4, Book VI of E.O. No. 292.
The LGU shall submit quarterly reports on fund utilization and accomplishments through other electronic means and LGU's website.
The LGU shall send a written notice when said reports have been submitted or posted on its website to the DBM, House of Representatives, Senate of the Philippines, House Committee on Appropriations, Senate Committee on Finance, and other offices where the submission of reports is required under existing laws, rules and regulations. The date of notice to said agencies shall be considered the date of compliance with this requirement."

b. ₱1.0 billion Marawi Siege Victims Compensation Fund, which shall be used for the compensation to (i) any lawful owner of a residential, cultural, commercial structures, and other properties in Marawi's Main Affected Areas or Other Affected Areas destroyed or damaged, either totally or partially, during the Marawi Siege; or (ii) owners of private properties demolished pursuant to the implementation of the Marawi Recovery, Rehabilitation, and Reconstruction Program; or (iii) the heirs of those who died and legally presumed dead, in accordance with Sections 4 and 5 of Republic Act No. 11696 or the guidelines to be promulgated by the Marawi Compensation Board.

In addition to the ₱20.5 billion NDRRMF, ₱17.15 billion QRF[82] was also provided in the budgets of the following agencies:

Table 23. Agencies with QRF Appropriation
(in million pesos)

Agency	QRF Appropriation
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	11,000.00
DSWD OSEC	1,750.00
BSGC NIA	300.00

Climate Change Expenditure Tagging (CCET)

The Philippines is considered as one of the most natural hazard-prone countries in the world. Its increasing population growth, changes in land-use patterns, migration, unplanned urbanization, environmental degradation, and global climate change are some of the contributory factors that increase a country's social and economic cost of natural disasters.[83] The 2021 Global Climate Risk Index ranked the Philippines as the 4th most affected in the period 2000-2019 in terms of long-term climate risk index, suffering an average annual loss of US$3.18 Billion or 0.54 percent of GDP, and a death toll of around 859. In addition, our country's geographic location being at the boundaries of two tectonic plates (the Philippine Sea Plate and the Eurasian Plate), makes it prone to volcanism and earthquake activity.[84]

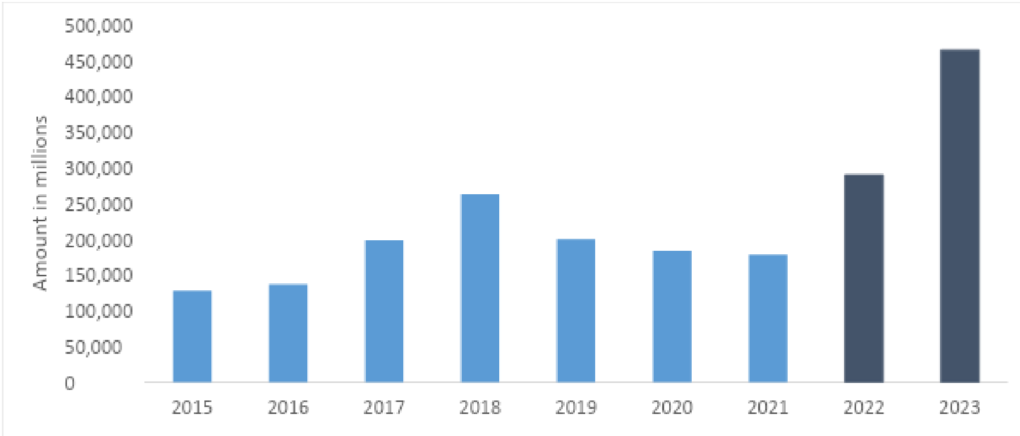
The National Climate Change Action Plan (NCCAP) was formulated to outline the country's agenda for climate change adaptation and mitigation strategies. Under the Plan, public financing will prioritize adaptation strategies to reduce the vulnerability and risks of the poor and marginalized. To sustain and monitor the implementation of the NCCAP priorities and other climate reforms, the Philippines started to mainstream climate change in the budgeting process through the CCET.

To provide guidelines and set out the responsibilities of the concerned agencies about the tagging/tracking of climate change expenditures in the budget process, DBM-CCC-DILG JMC 2015-01 and the DBM-CCC JMC 2015-01 were issued for the Local Government Units, and the National Government Agencies and Government-Owned and Controlled Corporations, respectively.

[82] The QRF is a stand-by fund to be used for relief and initial rehabilitation programs and projects.
[83] World Bank, Publication: Natural Disaster Risk Management in the Philippines : Reducing Vulnerability, *available at* https://openknowledge.worldbank.org/entities/publication/20fda7b3-ceee-5525-9fa9-e82483e04225 (last accessed 28 March 2023).
[84] See, Eckstein, et. al, briefing paper on "Global Climate Risk Index 2021" *available at* https://www.unesco-floods.eu/wp-content/uploads/2022/09/Global-Climate-Risk-Index-2021_1.pdf (last accessed 31 March 2023).

Over the years, the budget for climate change expenditures has progressively increased. The FY 2023 climate change budget jumped to ₱464.5 billion, a 60.3 percent increase from the FY 2022 level of ₱289.7 billion. This is also ₱336.7 billion more than the ₱127.8 billion climate change budget when the tagging exercise was first implemented in FY 2015.

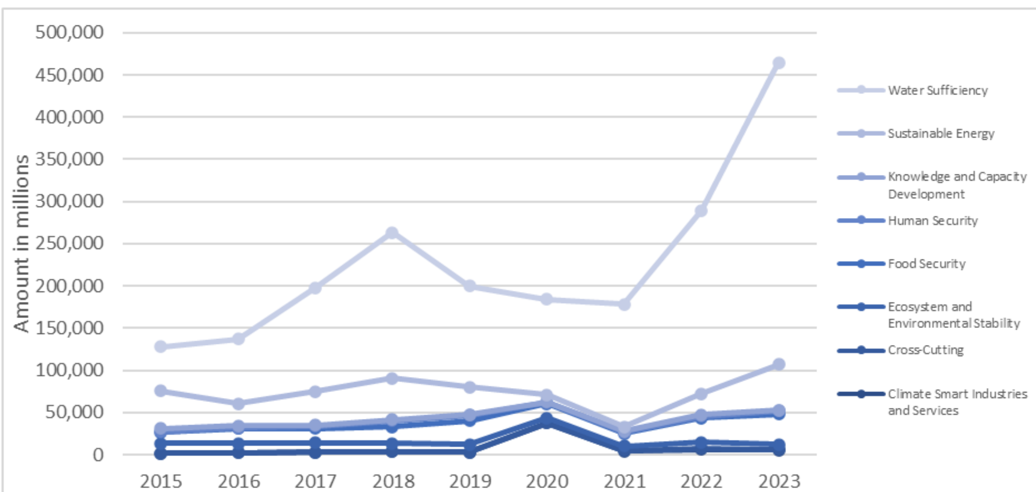
Figure 5. Climate Change Expenditure, 2015-2023



Source: BESF Tables on Climate Change Expenditures
Note: Amounts presented from 2015-2021 are actual obligation levels while from 2022-2023 are GAA levels.

From 2015 to 2023, among NCCAP strategic priorities expenditure, water sufficiency projects, such as streamlining of water governance structure, and improving sanitation in infrastructures have been consistently prioritized. For FY 2023, water sufficiency cornered 76.9 percent of the total climate change budget for the year.

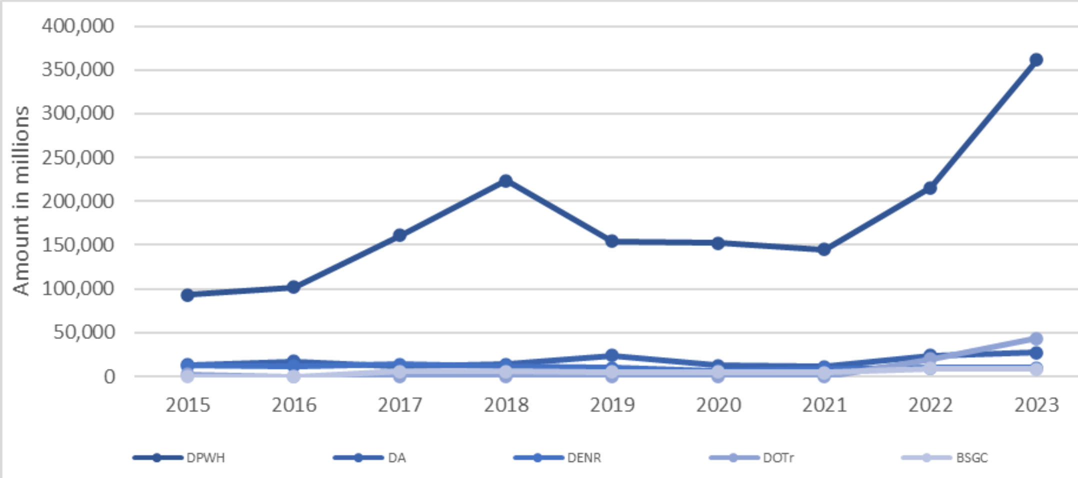
Figure 6. Climate Change Expenditure by Strategic Priorities, 2015-2023



Source: BESF Tables on Climate Change Expenditures, By National Climate Change Action Plan (NCCAP) Strategic Priorities
Note: Amounts presented from 2015-2021 are actual obligation levels while from 2022-2023 are GAA levels.

Meanwhile, by Department, the DPWH has the highest climate change budget, amounting to ₱361.5 billion in FY 2023, which is mainly for implementing flood control projects. This is ₱317.9 billion more than the climate change budget of the DOTr which recorded the second-highest budget for the given year.

Figure 7. Top 5 Agencies with Highest Climate Change Expenditure, 2015-2023



Source: BESF Tables on Climate Change Expenditures, By Department and Special Purpose Fund
Note: Amounts presented from 2015-2021 are actual obligation levels while from 2022-2023 are GAA levels

The Philippine Development Plan 2023-2028 stated that there is a need to increase the share of government budget allocation for climate and disaster resilience. Despite the increase in the climate change budget over time, the Plan noted the decline of its share of the total budget from 6.99 percent in 2017 to 5.77 percent in 2022. However, it is worth noting that for 2023 its share has already increased to 8.8 percent in 2023.

Disaster Risk and Non-Financial Asset Management

Impacts of Natural and Human-Induced Disasters

Using the 2018 AIR Catastrophe Risk model, the Philippines is expected to incur an annual average loss of ₱177 billion from its public and private assets due to typhoons and earthquakes. In the next 50 years, the Philippines has a 40 percent chance of experiencing a loss exceeding ₱1.73 trillion and a 20 percent chance of experiencing a loss exceeding ₱2.74 trillion.[85]

- Tropical Cyclones. From 2018 to 2022,[86] tropical cyclones were tracked by PAG-ASA. Out of which, thirty (30) are categorized as Typhoons while four (4) are classified as Super Typhoons.[87]

Table 24. Annual Tropical Cyclone Tracks, 2018-2022

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 (5 - Typhoon; 0 - Super Typhoon)
2022	18	6 (3 - Typhoon; 3 - Super Typhoon)
Total	97	34 (30 Typhoons; 4 Super Typhoon

Source: *DOST PAGASA*

[85] Philippine Catastrophe Risk Assessment and Modeling (January 2018)
[86] Philippine Atmospheric, Geophysical and Astronomical Services Administration
[87] Philippine Atmospheric, Geophysical and Astronomical Services Administration. (n.d.). Annual Tropical Cyclone Tracks. Information about tropical cyclone. https://www.pagasa.dost.gov.ph/information/about-tropical-cyclone

- Cost of Damage due to Tropical Cyclones. The total cost of select disaster events in 2022 amounts to ₱22.23 billion.

Table 25. 2022 Cost of Damage due to Tropical Cyclones

(in pesos)

Disaster Event	Agriculture	Infrastructure	Total
TS Agaton	2,265,078,505.02	6,950,000.00	2,272,028,505.02
TD Ester	5,453,240.00	-	5,453,240.00
STS Florita	1,855,024,611.66	571,100,000.00	2,426,124,611.66
ST Henry	-	61,372,000.00	61,372,000.00
ST Karding	2,999,272,998.82	304,245,310.00	3,303,518,308.82
TD Maymay	114,350,000.00	14,252,147.37	128,602,147.37
T Neneng	503,654,794.38	450,715,000.00	954,369,794.38
STS Paeng	7,214,082,875.39	5,868,503,198.57	13,082,586,073.96
Total	14,956,917,025.26	7,277,137,655.94	22,234,054,681.20

Legend:
ST - Super Typhoon; T - Typhoon; STS - Severe Tropical Storm; TS - Tropical Storm; TD- Tropical Depression
Source: OCD 24/7 Operations Center (As of March 21, 2023)
Note: All figures are still subject to change as reports are yet to be finalized

- 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.

- ENSO-neutral is expected to persist through the Northern Hemisphere in early summer 2023. A transition to El Niño is favored by July-September 2023, with chances of El Niño increasing through the fall.[88]

- Based on the latest monitoring of PAGASA,[89] La Niña still continues to weaken and transition to ENSO-neutral conditions during February, March, and April 2023 season. It increases the likelihood of above-normal rainfall conditions that could result in potential adverse impacts (e.g., heavy rainfalls, floods, flash floods, and landslides) in highly vulnerable areas.

- Geological Hazards: Volcanic Eruptions. The Philippines is situated at the boundaries of the Philippine Sea Plate and the Eurasian Plate which makes it exposed 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.[90] According to the Philippine Institute of Volcanology and Seismology (PHIVOLCS), Mayon Volcano is at Alert Level 2 (Increased Unrest) as of 15 March 2023[91], while Taal Volcano[92] and Kanlaon Volcano[93] are at Alert Level 1 (Low-level unrest) as of 15 March 2023.

- Geological Hazards: Earthquakes[94]. From January 2023 to March 2023, seismic events were recorded with various intensities based on the PHIVOLCS Earthquake Intensity Scale. Below are some of the earthquakes monitored by the PHIVOLCS.

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[88] Philippine Atmospheric, Geophysical and Astronomical Services Administration. (n.d.). El Niño/ La Niña Monitoring. https://bagong.pagasa.dost.gov.ph/climate/el-nino-la-nina/monitoring
[89] Philippine Atmospheric, Geophysical and Astronomical Services Administration. (n.d.). Monitoring. El Niño / La Niña Monitoring. https://bagong.pagasa.dost.gov.ph/climate/el-nino-la-nina/monitoring
[90] 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
[91] Philippine Institute of Volcanology and Seismology. (n.d.). Mayon Volcano Summary of 24Hr Observation 15 March 2023 5:00 AM. https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletin2/mayon-volcano/17372-mayon-volcano-summary-of-24hr-observation-15-march-2023-5-00-am
[92] Philippine Institute of Volcanology and Seismology. (n.d.). Taal Volcano Summary of 24Hr Observation 15 March 2023 5:00 AM. https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletin2/taal-volcano/17374-taal-volcano-summary-of-24hr-observation-15-march-2023-5-00-am
[93] Philippine Institute of Volcanology and Seismology. (n.d.). Kanlaon Volcano Summary of 24Hr Observation 15 March 2023 5:00 AM. https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletin2/kanlaon-volcano/17370-kanlaon-volcano-summary-of-24hr-observation-15-march-2023-5-00-am
[94] (n.d.). NDRRMC. https://ndrrmc.gov.ph/

Table 26. Earthquakes in January 2023 to March 2023
(Magnitude 5 and above)[95]

Date	Mag	Location
January 2023		
Jan 08	5.0	011 km S 33° W of Baganga (Davao Oriental)
Jan 15	5.3	007 km S 55° E of Leyte (Leyte)
Jan 18	7.0	335 km S 32° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
	5.4	412 km S 31° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
Jan 22	5.2	304 km S 27° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
Jan 24	5.4	349 km S 25° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
	5.3	380 km S 21° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
	5.9	306 km S 28° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
Jan 25	5.1	395 km S 62° E of Sarangani Island (Municipality Of Sarangani) (Davao Occidental)
Jan 26	5.6	353 km S 30° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
Jan 28	5.5	015 km S 88° W of Homonhon Island (Guiuan) (Eastern Samar)
Jan 29	5.0	026 km S 02° E of Glan (Sarangani)
Jan 30	5.4	407 km S 25° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
February 2023		
Feb 01	6.0	002 km S 66° W of Compostela (Davao De Oro)
Feb 11	6.0	251 km S 29° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
Feb 15	5.0	011 km N 32° W of Dimasalang (Masbate)
Feb 16	6.0	011 km S 20° W of Batuan (Masbate)
	5.0	032 km S 90° W of San Felipe (Zambales)
Feb 19	5.0	009 km S 12° W of City Of Tandag (Surigao Del Sur)
Feb 24	6.4	388 km S 49° E of Sarangani Island (Municipality Of Sarangani) (Davao Occidental)
Feb 25	5.0	285 km S 14° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
March 2023		
Mar 06	5.3	015 km S 47° E of New Bataan (Davao De Oro)
	5.0	044 km S 76° E of Jose Abad Santos (Davao Occidental)
Mar 07	5.9	010 km S 33° E of New Bataan (Davao De Oro)
	5.6	012 km S 69° E of New Bataan (Davao De Oro)
Mar 16	5.3	239 km S 60° E of Sarangani Island (Municipality Of Sarangani) (Davao Occidental)

Source: *DOST PHIVOLCS (As of 17 March 2023)*

- Health-related emergencies: COVID-19 Pandemic. As of 7 March 2023, the World Health Organization (WHO) confirmed that cumulative cases of COVID-19 reached 759,408,703 globally, with the United States of America (USA) accounting for 102,247,392 cases (13.46 percent), the highest COVID-19 cases in a country[96]. In the Philippines, the COVID-19 tracker of the Department of Health (DOH) reported that as of 13 March 2023, total cases reached 4,078,041 (9128 active cases, 4,002,696 recovered, and 66,217 died).[97]

- Dengue. Data from the Department of Health (DOH)'s Disease Surveillance Report showed 220,705 dengue cases recorded from 1 Jan. to 17 Dec. 2022. The figure is 182 percent higher than the 78,223 cases reported during the same period in 2021. Central Luzon logged the highest number of dengue cases with 44,030. It was followed by the National Capital Region with 25,855 and Calabarzon (Cavite, Laguna, Batangas, Rizal, and Quezon) with 19,374 cases. Regions that recorded the highest increase compared in 2021 were Cagayan Valley with 1,168 percent from 1,428 to 18,107 cases; Zamboanga peninsula, 742 percent from 1,218 to 10,250 and Bangsamoro Autonomous Region in Muslim Mindanao

[95] Philippine Institute of Volcanology and Seismology. (n.d.). Earthquake Information. Phivolcs. https://www.phivolcs.dost.gov.ph/index.php/earthquake/earthquake-information3
[96] (n.d.). WHO Coronavirus (COVID-19) Dashboard | WHO Coronavirus (COVID-19) Dashboard With Vaccination Data. https://covid19.who.int/
[97] COVID-19 Tracker | Department of Health website. (n.d.). DOH. https://doh.gov.ph/covid19tracker

with 630 percent or from 697 to 5,086 cases. The DOH's Epidemiology Bureau data showed that dengue-related deaths increased in 2022 with 722, or a case fatality rate (CFR) of 0.3 percent. During the same period in 2021, 282 deaths or a CFR of 0.4 percent were recorded. Central Visayas recorded the highest number of dengue deaths with 103 followed by Central Luzon (99), and Western Visayas (85).[98]

- Measles. In the Philippines, it is estimated that 2.4 million children under the age of five are susceptible to 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.[99] 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[100] to March 2021.[101] For 2022, a total of 589 measles cases were recorded across the country in 2022. This figure posted a 186 percent increase as compared to the year 2021 where only 206 cases were logged. CALABARZON registered the most number of measles cases with 110, followed by the National Capital Region with 77 cases, Central Visayas with 69, Central Luzon with 49, Zamboanga Peninsula with 47, and Davao Region with 41. It is worth noting that from 1 January 2021 to 5 March 2022, there is no reported case of death from measles.[102]

- 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 ₱19.17 billion or about 17.7 percent of Autonomous Region in Muslim Mindanao's (ARMM) Gross Regional Domestic Product (GRDP) and 0.12 percent of the country's Gross Domestic Product (GDP). Excluding humanitarian and livelihood efforts (which were directly distributed by development partners), a total of ₱38.43[103] billion in Official Development Assistance (ODA) has been committed or contracted with development partners. ₱34.87 billion of which are in loans, while ₱3.56 billion are in grants. As of March 2023, ₱21.04 million, or 54.68% of the total amount has been disbursed or used.

<u>Outlook</u>

Impact of COVID-19 on the Philippine Economy.[104] In 2020, the country's economy contracted by 9.5 percent, with employment dropping by 2.6 million, or 6.2 percent, due to the COVID-19 pandemic.[105] Despite the rise of new and more contagious COVID-19 variants in 2021, the economy grew by 5.7 percent and employment increased by 4.6 million or 11.7 percent. The country posted a 7.6 percent full-year growth in 2022, which exceeded the Development Budget Coordination Committee's (DBCC) target of 6.5-7.5 percent for the year.[106] The country's improved COVID-19 risk management and the easing of mobility restrictions have created a positive economic outlook, boosting economic activity and creating more jobs despite external headwinds.[107]

Industry. In the first half of 2022, economic recovery has become more broad-based as many industry subsectors have surpassed pre-pandemic performance. Electricity, steam, water, and waste management (9.9 percent) have exceeded pre-pandemic growth. For the manufacturing sector: wood, bamboo cane, and rattan (31.3 percent); chemicals (29.1 percent); paper (19.2 percent); furniture (13.3 percent); electronics (8.9 percent); food

[98] Department of Health. https://doh.gov.ph/statistics
[99] DOH, WHO. (2020, September 17). UNICEF. https://www.unicef.org/philippines/press-releases/doh-who-unicef-conduct-nationwide-measles-campaign-starting-october-26
[100] Ibid.
[101] 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
[102] Statistics. (n.d.). Department of Health. https://doh.gov.ph/statistics
[103] PHP Figure of ODAs are approximate amounts. The amounts may vary depending on the foreign exchange rate used for the currency conversion.
[104] 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
[105] National Economic and Development Authority. (2021). Beyond the Pandemic: Charting the Path Towards Full Economic Recovery and Growth. https://neda.gov.ph/wp-content/uploads/2022/07/NEDA_Annual_Report-2021-web.pdf
[106] National Economic and Development Authority. (26 January 2023). Statement of NEDA Secretary Arsenio M. Balisacan on the Philippine Economic Performance for the Fourth Quarter and Full Year of 2022. National Economic and Development Authority. https://neda.gov.ph/statement-of-neda-secretary-arsenio-m-balisacan-on-the-philippine-economic-performance-for-the-fourth-quarter-and-full-year-of-2022/
[107] Ibid.

products (4.9 percent); and fabricated metals (4.2 percent) have all reported production expansions higher than their 2019 figures.[108]

Tourism. The Department of Tourism (DOT) reported that a total of 2.6 million tourists arrived in the Philippines from February 2022 to December 2022, out of which 628,445 are Overseas Filipino (23.68 percent) and 2.0 million are foreign tourists (76.32 percent).[109]

Employment. In January 2023, the Philippine Statistics Authority (PSA) reported that the country's unemployment rate was estimated at 4.8 percent, translating to 2.37 million unemployed Filipinos. This estimated rate is lower than the unemployment rate reported in the same month in 2022 at 6.4 percent. Underemployed persons were registered at 6.65 million, translating to an underemployment rate of 14.1 percent. This was lower than the reported rate in January 2022 (14.9 percent) and in October 2022 (14.2 percent).[110]

Policies and Institutional Measures and Initiatives

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.

- 8-Point Socioeconomic Agenda. The current administration aims to decisively respond to the ongoing socioeconomic risks through a comprehensive 8-point socioeconomic agenda, which aims to propel the country to upper middle-income status by 2024 and bring down the poverty incidence to 9 percent by 2028.

  In the near term, the government will address the impact of rising commodity prices on vulnerable sectors and the long-term economic scarring from the pandemic. Over the medium term, the goal is to create more jobs. The government will achieve this by increasing investments in smart infrastructure, human capital development, and the digital economy.

- Philippine Development Plan (PDP) 2023-2028. The overarching goal of the PDP is to achieve economic and social transformation for a prosperous, inclusive, and resilient society. The strategies are organized corresponding to the following objectives: (a) develop and protect capabilities of individuals and families; (b) transform production sectors to generate more quality jobs and produce competitive products; and (c) foster an enabling environment encompassing institutions, physical and natural environment, which promotes a prosperous, inclusive, and resilient society.

- Medium-term Fiscal Framework (MTFF) 2022-2028. The current administration also introduced the country's first MTFF, which serves as our blueprint to (a) reduce fiscal deficit, (b) promote fiscal sustainability, and (c) enable robust economic growth. It proposes measures that will enhance the fairness and efficiency of our tax system, such as:
  - Promote efficient tax administration through digitalization
  - Put in place measures that will help our tax system catch up in the digital economy
  - Introduce tax measures that will promote environmental sustainability to address climate change
  - Pursue the remaining tax reform packages of the Duterte Administration

[108] Philippine Development Plan 2023-2028
[109] Department of Tourism. (1 January 2023). Air Visitors arrivals by nationality (February to December 2022). http://www.tourism.gov.ph/files/2023/01/01-04/tourism_demand/Feb-Dec.pdf
[110] https://psa.gov.ph/content/unemployment-rate-january-2023-estimated-48-percent

This fiscal consolidation strategy will bring down our debt-to-GDP ratio from 60.4 percent in 2021 to less than 60.0 percent by 2025 and cut the deficit-to-GDP ratio from 8.6 percent in 2021 to 3.0 percent by 2028.

- Build Better More. To promote full economic recovery and ensure sustainable economic growth, the government will increase the infrastructure spending-to-GDP ratio from 5.6 percent in 2022 to 6.2 percent by 2028. The government's infrastructure development program, now called Build Better More, continues the previous administration's Build, Build, Build program and incorporates a strong digital infrastructure component.

- 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.

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

    - 2023 Allocation for the National Disaster Management Fund (NDRRMF). For fiscal year (FY) 2023,[111] Congress approved an allocation of ₱20.5 billion under the NDRRMF, which includes ₱1.0 billion allocation for Marawi Siege Victims Compensation Fund. The NDRRMF is one of the annually appropriated budgets that cover aid, relief, and rehabilitation services to communities/areas affected by human-induced and natural calamities, and repair and reconstruction of permanent structures, including other capital expenditures for disaster operation, and rehabilitation activities.

    - The Philippine Catastrophe Bonds (Cat Bond), a sovereign risk transfer mechanism, is a US$225 million disaster risk financing instrument that aims to provide financial protection against earthquakes (US$75 million) and tropical cyclones (US$150 million) over a three-year period from November 2019 to November 2022. 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 US$52.5 million payout for the government in early 2022.[112] The Earthquake-linked Cat Bond ended in December 2022, while the Typhoon-linked Cat Bond ended in February 2023.

    - 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 of a state of calamity or public health emergency. The WB released US$200 million in support of the Philippine government's recovery and reconstruction efforts in the aftermath of ST Odette. Subsequently, pursuant to the Presidential Declaration of a State of Calamity in areas affected by Typhoon Paeng issued in November 2022, the remaining balance on the loan amounting to US$297.50 million was disbursed in January 2023.

    - The Disaster Resilience Improvement Program (DRIP) is a US$500 million loan from the Asian Development Bank (ADB) executed by the Department of Finance (DOF). The DRIP is part of the National Government's contingent financing that can be disbursed quickly following a health-

[111] Department of Budget and Management. (n.d.). NDRRMF FY 2023. DBM. https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2023/VolumeI/NDRRMF.pdf
[112] The said payout was received by the Government of the Philippines as per the Bureau of Treasury las 22t February 2022.

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 26 October 2020, with an implementation period of 3 years. The loan is fully disbursed and will be implemented until 2023.

- City-Level Parametric Liquidity Program (CPLP). The CPLP is currently being developed through Technical Assistance (TA) 9766 from the Asian Development Bank. The pilot design includes eighteen cities: Angeles, Bacolod, Baguio, Butuan, Calapan, Caloocan, Cavite, Dagupan, Davao, Iloilo, Iriga, Marikina, Paranaque, Pasig, Quezon City, Tacloban, Tagaytay, and Trece Martires. Under said pilot design, the aforementioned cities were engaged in number of activities such as exposure data collection, needs assessment, and capacity building.

- Philippine Catastrophe Insurance Facility (PCIF). On 14 July 2022, the Insurance Commission (IC) issued Circular Letter No. 2022-34 on the Guidelines on the Adoption of the Revised Schedule of Minimum Catastrophe Rates, which provides for the revised schedule of minimum catastrophe rates prescribed shall be observed by all non-life insurance companies and intermediaries and shall apply to all insurance policies covering earthquake and typhoon and flood risks for both new and renewal business, except for risks rated under motor car tariff.

- 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 DOF continues to work with other ASEAN Member States (AMS) to avail SEADRIF's proposed public asset insurance product while taking into consideration of the country's own regulatory and institutional policies.

- Asia Pacific Economic Cooperation (APEC) Working Group on Disaster Risk Financing Solutions. To date, the Philippines and Japan co-chair 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 WB is developing a tool for infrastructure analytics for disaster risk financing for the use of member economies. The ADB also established a dedicated technical assistance platform- NDC Advance- to help developing member countries (DMCs) mobilize finance and build capacity and knowledge to support the implementation of the respective DMCs' Paris Climate Agreement through their Nationally Determined Contributions. A high-level roundtable discussion on financial protection gaps was organized by the OECD last 8 December 2022.

- The unprecedented impacts of COVID-19 manifested on various fronts - society, the economy, health, and security. Countries had to grapple with this crisis whilst simultaneously formulating appropriate, responsive, and efficient policy directions to counter the burgeoning pandemic. COVID-19 has prompted countries to realign resources, reconfigure priorities, and even design new and sustainable policies.

- Financing Support for COVID-19 Vaccination and Recovery Efforts. As of 1 March 2023, 251.38 million vaccines have been delivered to the country, supported by COVID-19 vaccination project financing from multilateral development banks amounting to US$2.06 billion[113] and local funds amounting to ₱88.60 billion or US$315.1 million. With this, 73.90 million Filipinos have been fully vaccinated with their second dose, and 21.61 million have received their third or booster shots. Even as spending priorities shifted

[113] Pursuant to changes in scope for the ADB HEAL and WB PCERP loans

away from the COVID-19 response, there is continued focus on post-pandemic recovery amidst compounding crises. Recovery efforts are being supported by US$10.91 billion in budgetary support financing contracted from 2022 to Q1 2023.

- Climate Change in the Philippines. Adaptation continues to be an urgent priority for the Philippines given the substantial losses and damages our country incurs each year from typhoons and other natural disasters, notwithstanding the need for us to now recover from the economic and non-economic shocks brought about by the COVID-19 pandemic. The increasing number and severity of typhoons have also limited our economic development and social protection coverage due to increased appropriations for disaster relief, emergency funds, and insurance premiums causing a fiscal strain in our budget annually.

- The Philippines believes that we are past the point of merely theorizing about climate change. Our lived experience of having an annual intensifying and increasing number of typhoons does not allow us to delay any concrete action to mitigate and adapt to the changing climate and its impending crisis. Concrete climate action for the Philippines refers to practical projects, programs, and initiatives with the aim of helping our local communities, especially the most vulnerable, to the adverse effects of climate change in our societies, to cope, and respond to the erratic weather/climate patterns.

- In this context, the Philippines advocates for climate finance as a blended approach of grants, investments, and subsidies that would provide for efficient and ample mobilization of financing for concrete and tangible climate action; recognizing, in the same manner, the state of the present climate emergency and its threat to the daily lives of Filipinos.

    - <u>Grants</u>: to improve the capacity of local communities in climate-vulnerable areas to undertake mitigation and adaptation measures (e.g., educational or technical assistance programs to help people conceive of and execute localized projects).

      The Philippines has received a total of US$212.42 million in technical assistance/grants from international and bilateral partners.

    - <u>Investments</u>: bankable and high-yield returns focused on adaptation and mitigation programs, projects, and activities:
        - Investments in solar power to unlock more business opportunities — creating new jobs and leading to energy self-reliance in the long run; and/or
        - Risk insurance/financing as a means of protection from financial losses caused by extreme climate events
          The Philippines mobilized a total of US$3.538 billion in program loans and US$11.245 billion in project loans for ongoing climate change and disaster risk management.

    - <u>Subsidies</u>: to support initiatives leading to the transition to a climate-resilient economy addressing the financial costs and risks of this adjustment (e.g., providing financial aid to communities during their gradual shift to renewable energy sources replacing power plants that use fossil fuels)

- Climate Change Initiatives in the Philippines. The Philippine Government has also significantly prioritized the allocation of an adequate budget to climate change mitigation and adaptation actions and interventions. The National Climate Change Action Plan (NCCAP) under the 2023 Budget of Expenditures and Sources of Financing (BESF) proposes to allocate ₱459.55 billion or around 8.72 percent of the total budget for programs related to climate change mitigation.

- The 8-Point Socioeconomic Agenda, likewise, prioritizes climate-related policies in the medium term.

    - To ensure food security, the government will increase investments in research and development on climate change adaptation;
    - To improve infrastructure, Build-Build-Build projects will be refocused towards infrastructure projects that improve climate resilience;
    - To encourage research and development (R&D) and innovation, technologies that contribute to climate action and those that mitigate and adapt to climate change impact will be developed;
    - Adoption of a green (and blue) economy roadmap to protect farmers against climate extremes by reforming agricultural insurance; and
    - To establish livable and sustainable communities, incentivize local government units (LGUs) to focus more on climate-friendly projects in: (a) electric vehicles and public transport development; (b) sustainable tourism; (c) nature-based solutions (coastal habitat restoration and biodiversity protection); (d) energy efficiency (street lighting, public building retrofits, green buildings); and (e) water security.

- Excise tax on Single-Use Plastic (SUP) bags. Additionally, the proposed excise tax on single-use plastic bags is one of the administration's legislative priorities to promote environmental sustainability to address climate change. The DOF is currently working with the legislative branch to impose a ₱20 excise tax for every kilogram of plastic bag removed from the place of production or released from the customs house. Starting in 2026, the excise tax rate will be indexed by 4 percent every year thereafter. The measure will help regulate or tax the consumption of single-use plastics as part of the Philippines' contributions to the global movement to reduce pollution and adopt more sustainable practices. Given the detrimental effects of single-use plastic bags on the environment, this tax encourages consumers to explore and utilize eco-friendly alternatives while also generating additional revenue for the government.

- Bonds Issuance under the Sustainable Finance Framework. Lastly, in March 2022, the Republic of the Philippines (ROP) successfully tapped the international capital markets for the first time, 2022, with its offering of US$2.25 billion triple tranche 5-year, 10.5-year, and 25-year Global Bonds. The 25-year Global Bonds were issued under the Republic's Sustainable Finance Framework and mark the Republic's debut ESG Global Bonds offering. This was then followed by a JPY70.1 billion offering of multi-tranche 5-year, 7-year, 10-year, and 20-year Sustainability bonds ("the Bonds") with an ESG label across all four tranches. These issuances secured strong demand from investors and helped highlight the strong investor-investee confidence in the National Government's commitment to achieving sustainable development and mitigating climate change, notably the pledge to reduce our greenhouse gas emissions by 75 percent by 2030.

  More recently, in October 2022, the ROP issued another offering of US$2.0 billion triple tranche 5-year, 10.5-year, and 25-year Global Bonds. This recent 25-year USD issuance will likewise add to the Republic's financing for initiatives under the Sustainable Finance Framework. This will not only attract the private sector-based investment needed to finance the climate change mitigation and adaptation projects in the Philippines but also allow the government to attract funds from ESG-conscious investors and boost the development of the sustainable financing market in the Philippines.

- People's Survival Fund (PSF). The PSF is a special fund intended for local government units (LGUs) 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 ₱1.0 billion annually.

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

- United Nations Framework Convention on Climate Change (UNFCCC) 27th Conference of Parties (COP27). The COP27 Philippine Delegation demanded transparent, accessible, predictable, and efficient climate finance in the outcomes/packages of COP27. During the discussions across all matters on climate finance, the Philippine Delegation pushed for the ample mobilization of climate financing, complemented by viable and effective technology transfer and country-specific capacity building, towards concrete projects, programs, and initiatives in developing and climate-vulnerable countries without having to forego opportunities to meet our own development agenda.

- Green Climate Fund (GCF) - The GCF, which was established in 2010, is a global fund created to serve the UNFCCC[114] Paris Agreement and Kyoto Protocol, aiming to deliver equal amounts of funding for 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. As the National Designated Authority (NDA) to the GCF, the DOF acts as the core interface between the Government of the Philippines and the GCF.

- The GCF Board approved the Philippines' Department of Agriculture (DA) project "Adapting Philippine Agriculture to Climate Change" (APA Project), during its 35th Board Meeting (.35) in Incheon, South Korea last 15 March 2023. The APA Project has a total project cost of US$39.2 million, of which the GCF Grant will be US$26.3 million, while US$12.9 million will be the Government's co-financing.

  The APA Project will benefit some 1.25 million agricultural workers in areas vulnerable to climate change. The APA Project seeks to enable beneficiaries to incorporate viable Climate Resilient Agriculture (CRA) technologies into their practices and enhance capacities to develop CRA enterprises through its integrated technical support services, such as training, provision of appropriate production inputs, market access, as well as access to financing. The Project will increase awareness about climate change, its risks, and its management, towards improving food security, increasing household incomes, and enhancing resilience.

- Vulnerable Twenty (V20) Group. The V20 Group was established with the inaugural meeting of the V20 Ministers of Finance of the Climate Vulnerable Forum (CVF) on 8 October 2015 in Lima, Peru. The Philippines is currently participating in the High-Level Consultative Group (HLCG)[115] meetings, V20 Ministerial Dialogues, and V20 Senior Officials Meeting with the DOF as co-chair of the V20 Focus Group on Risk. Some of the initiatives of the V20 include the Climate Prosperity Plan (CPP) and Global Shield which aim to maximize socio-economic outcomes for countries on the frontline of the climate emergency and facilitate more and better pre-arranged protection against climate and disaster-related risks respectively.

- Green Force or the Inter-Agency Technical Working Group for Sustainable Finance (ITSF). The DOF is currently establishing a sustainable finance ecosystem to synergize investments from the public and private sectors and yield green and social projects that will have lasting and permanent effects on the environment and on our people. The Sustainable Finance Roadmap and its Guiding Principles are the key documents the DOF, through the ITSF or the Green Force, developed to pursue this endeavor. The Sustainable Finance Guiding Principles serve as a taxonomy for the sustainable finance ecosystem in the Philippines. This is aligned with the Association of Southeast Asian Nations (ASEAN) Standards for Green Bonds, European Union (EU) Taxonomy, and so

[114] The United Nations Framework Convention on Climate Change (UNFCCC) is an international convention, whose 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.
[115] The HLCG promotes exchange between V20 and G20+ in the Climate and Disaster Risk Financing and Insurance (CDRFI) area.

on. The Sustainable Finance Roadmap can facilitate catalytic investments to support Nationally Determined Contribution (NDC) implementation and raising ambitions.

- Accelerating Climate Investments in the Philippines (ACIP) through the Risk Resiliency Programme (RRP) Pillar III. 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. The Readiness for Carbon Pricing project is under Pillar III of ACIP, which is the last component to be developed under ACIP. Activities of Pillar III will cover the socioeconomic and environmental co-benefits of Carbon Price Instruments (CPIs), will harmonize CPIs with current Department of Energy (DOE) Renewable Energy and Energy Efficiency policies, and facilitate stakeholder engagement.

- 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. A Terms of Reference (TOR) was developed to support the Philippines in their preparation of a Roadmap for Phasing out SUPs in the Philippines, which will be carried out in close collaboration with relevant public agencies and the private sector as well as other key stakeholders.

- United Nations Development Programme (UNDP) Climate Finance Network (CFN) Public Finance Workstream. CFN is a regional project that will be implemented in Asia and the Pacific Region from 2022 until 2029. It will serve as a peer-to-peer network and as a knowledge management and technical support facility for Ministries of Finance with the engagement of sector ministries and sub-national governments to identify and scale up climate finance innovations in the region.

- UNDP Accelerating Green and Climate Finance in the Philippines: Nature Based Solutions (NBS). The Project aims to increase private sector investments in gender-responsive nature-based solutions for climate-resilient technologies, innovations, practices, and approaches. This is in support of a just transition to resilient and low-emission development that sustains nature and ecosystems and protects the rights of all who are affected and at risk.

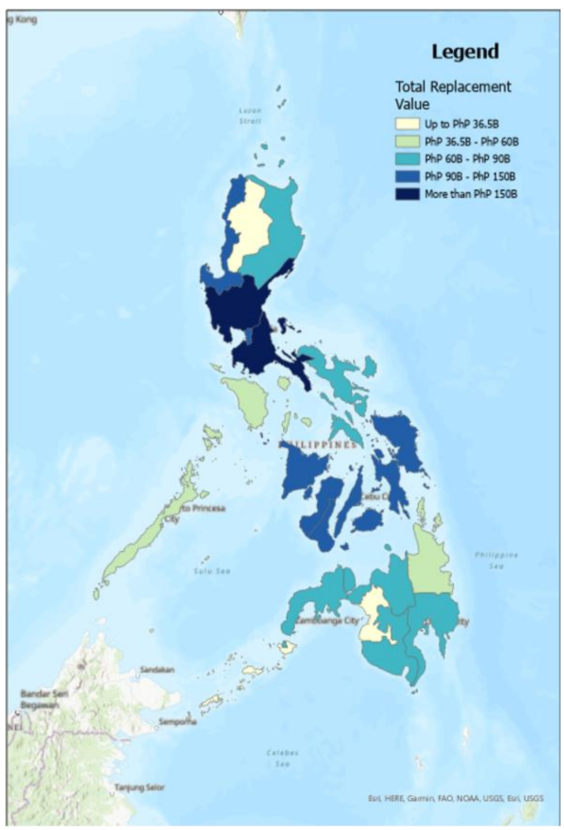
Box 3. Non-Financial Asset Management and Risk Management

For fiscal measures, the NG strengthened oversight over its strategically important assets through the launch of the National Asset Registry System (NARS). As of end-2022, the Bureau of the Treasury (BTr) has gathered over 366,000 assets valued at nearly ₱2.0 trillion from eleven (11) National Government Agencies and their instrumentalities. With the support of advanced tools, the findings of NARS are not limited to only determining the groups, regions, and assets most affected by the risk, but are also pivotal in specifying costs and corresponding actions to minimize it, therefore providing a conclusive disaster risk assessment.

The National Asset Registry System (NARS) was conceptualized in 2018 and is currently maintained at the Bureau of the Treasury (BTr). It serves as the central repository of the non-financial assets of the National Government, particularly for the government's strategically important assets. In 2020, the Department of Finance (DOF), the Department of Budget and Management (DBM), and the National Economic and Development Authority (NEDA) issued a Joint Memorandum Circular (JMC) 2020-1, which designated the NARS as the primary facility to record the assets of the National Government).

One of the most important strategic assets in school buildings from the asset data of the Department of Education (DepEd). Per records of the BTr, collected data from DepEd include 46,114 schools, which comprises 314,325 school buildings with an estimated total value of ₱1.5 trillion across the country. The submission of DepEd accounted for 87.71 percent of the assets by count and 75 percent of assets by value in the NARS.

Figure 8. Regional Density Map of DepEd Schools by Replacement Value



In 2022, ArcGIS capacity was introduced to enhance the usefulness of the data collected through the NARS. With data on natural hazards and vulnerability, the BTr was able to view historical disaster experiences and forecast potential losses from certain types of calamities, such as typhoons and earthquakes. ArcGIS enables the estimation of economic value at risk, the building of an exposure heatmap, and the development of a prioritization plan for insurance. Specifically for 2022, accomplishments include the typhoon hazard concentration map of the Philippines, mapping of the NARS data, and disaster loss assessment (single event, annual average, select return periods).

Figure 9. Tropical Cyclones (Tropical Storms and Stronger) Paths, 2013-2022

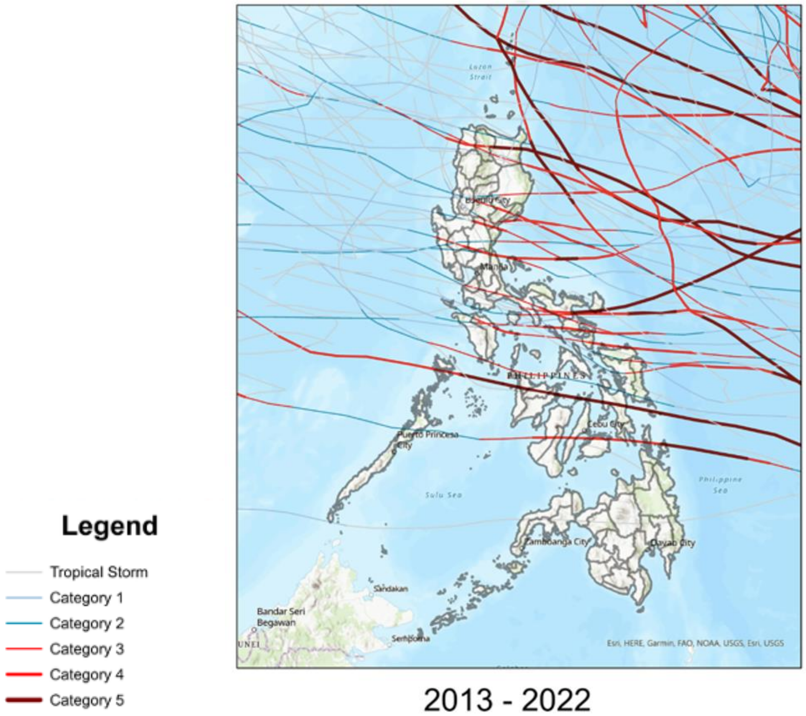
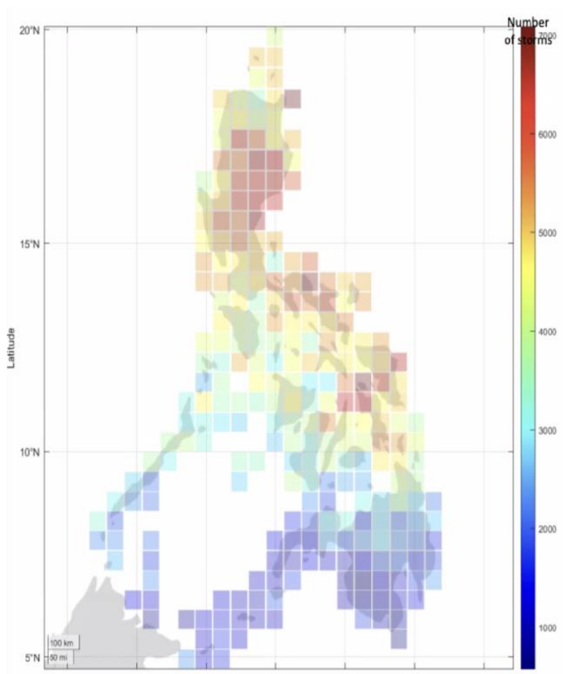


Figure 10. Tropical Cyclone Concentration (by frequency) across the Philippines, 1900-2022



Using the GIS software and the typhoon risk model developed, we are in a position to quantify the financial implications that the Philippines is facing with regard to typhoons and DepEd data. Below are the results of the typhoon risk model simulation.

Table 27. Typhoon Risk Model Simulation

Annual Probability of Occurrence	Expected Loss	NCR	Eastern Seaboard (25 Named Provinces[116])
Annual Average Loss	₱17.98 B - 19.70 B	₱1.9 B	₱5.7 B
5.00%	₱153 B - 166 B	₱22 B	₱59.8 B
1.00%	₱196 B - 213 B	₱22 B	₱73.3 B
0.50%	₱206 B - 224 B	₱22 B	₱79.2 B
0.20%	₱216 B - 235 B	₱22 B	₱80.6B

In addition to simulations of potential events at different magnitudes, we were also able to simulate historical events such as Typhoon Odette. Using the hazard information of Typhoon Odette and the DepEd database, the model estimated damages of ₱16.2 billion spread across more than 18,000 schools. Some of these schools had minor damages, while some would reach more than a million worth of damages.

Figure 11. Simulation of Typhoon Odette against the DepEd Schools

To assess the potential damages of another Super Typhoon, a simulation of the damages for a 315kph Super Typhoon was conducted. Assuming a Super Typhoon with a constant wind speed of 315kph across the Philippines, 10 percent or over 30,000 school buildings would have been nearly completely destroyed (damage rate of at least 80 percent of the structure). In terms of value, this would result in damages amounting to ₱368B nationwide. Based on the scenario, the estimated damages would correspond to approximately 40 percent of the portfolio. The less than 50 percent damage rate can be attributed in part to the strengthened DepEd structures as of late compared to its predecessor structures which were not as structurally resilient to intense winds.

[116] The 25 named provinces are: Albay, Aurora, Batanes, Cagayan, Camarines Norte, Camarines Sur, Catanduanes, Cebu, Davao del Sur, Davao Oriental, Dinagat Islands, Eastern Samar, Ilocos Norte, Ilocos Sur, Isabela, Laguna, Leyte, Northern Samar, Pampanga, Quezon, Rizal, Sorsogon, Surigao del Norte, Surigao del Sur, Zambales

Figure 12. Number of School Buildings with at least 80% Damage

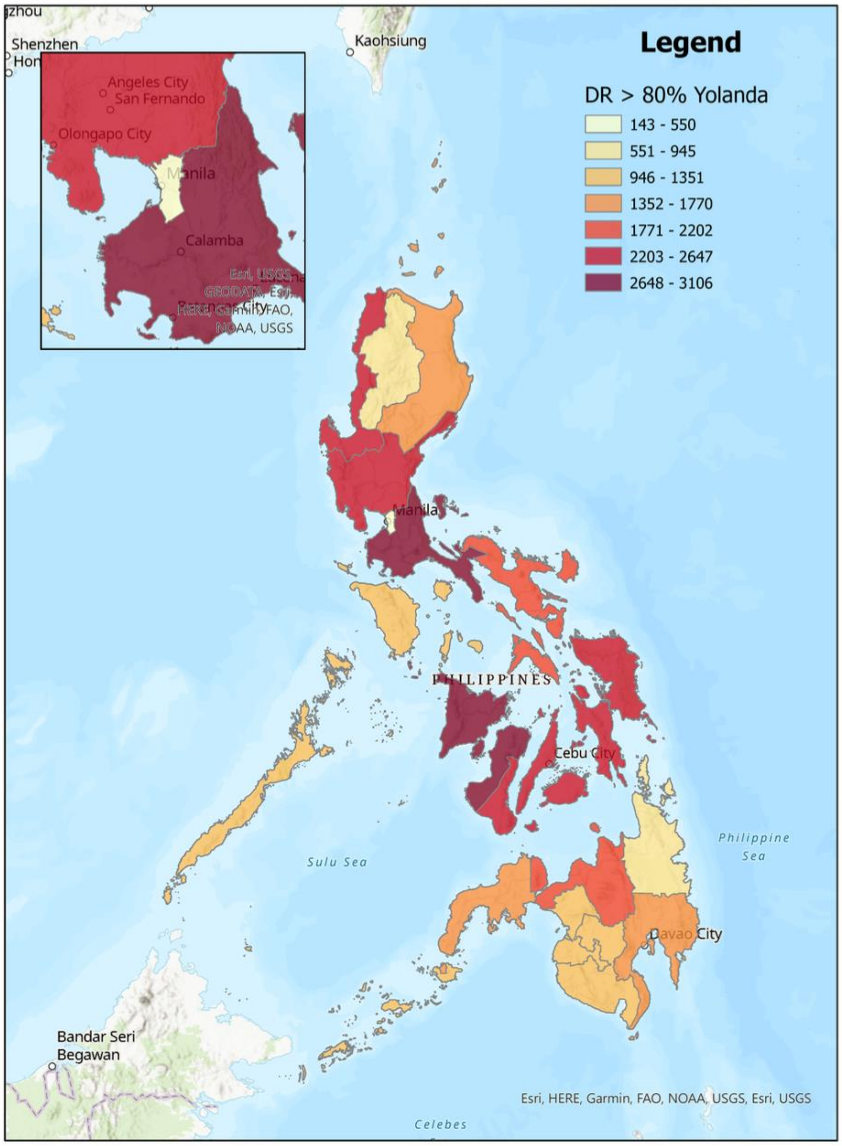


Figure 13. Ratio of Severely Damaged School Buildings to Regional Inventory

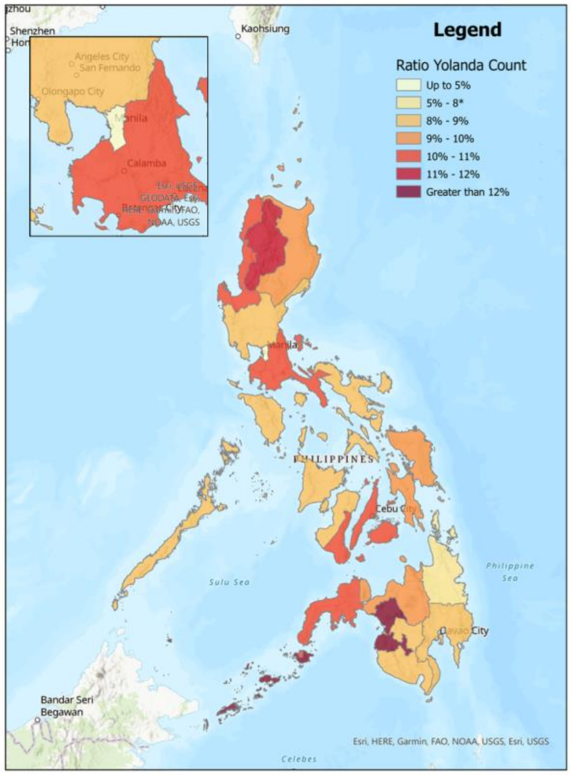
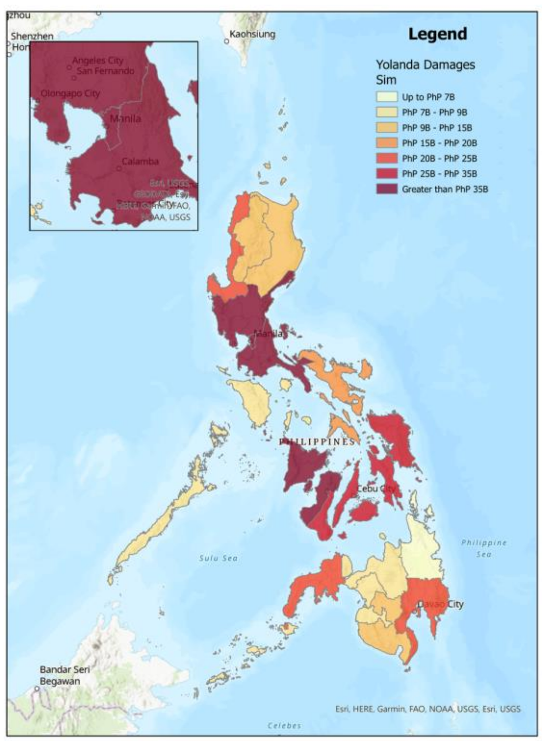


Figure 14. Simulated Damages at 315kph



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	Caticlan Airport Development Project	CAAP
9	Cavite-Laguna Expressway	DPWH
10	Civil Registry System - Information Technology Project (Phase II)	PSA
11	Clark International Airport Expansion Project - Engineering, Procurement and Construction	BCDA
12	Clark International Airport Expansion Project - Operation and Maintenance	BCDA
13	Clark Water Supply and Sewerage	CDC
14	Land Titling Computerization Project	LRA
15	Light Rail Transit Line No. 3 (MRT 3)	DOTr
16	LRT Line 1 Cavite Extension Operations and Maintenance	DOTr/LRTA
17	Mactan-Cebu International Airport Passenger Terminal Building	DOTr/MCIAA
18	Manila-Cavite Toll Expressway Project	PRA/TRB
19	Manila-North Expressway (NLEX) Project including NLEX North Harbor Link (Segments 8.1, 8.2, 9, and 10)	PNCC/TRB
20	Metro Manila Expressway C6	PNCC/TRB
21	Metro Manila Skyway Stage 1 & 2 Project	PNCC/TRB
22	Metro Manila Skyway Stage 3 Project	PNCC/TRB
23	Mindanao Coal-Fired Thermal Power Plant	NPC
24	MRT Line 7	DOTr
25	Muntinlupa-Cavite Expressway	DPWH
26	MWSS Privatization (East)	MWSS
27	MWSS Privatization (West)	MWSS
28	NAIA Expressway Project	DPWH
29	New Clark City - Mixed Use Industrial Real Estate Development	BCDA
30	New Clark City National Government Administrative Center (NCC NGAC)	BCDA
31	New Manila International Airport	DOTr
32	NLEx-SLEx Connector Road Project	DPWH
33	Pagbilao Coal-Fired Power Plant	NPC
34	Parañaque Integrated Terminal Exchange	DOTr
35	PPP for School Infrastructure Project Phase I - Package A	DepEd
36	PPP for School Infrastructure Project Phase I - Package B	DepEd
37	PPP for School Infrastructure Project Phase I - Package C	DepEd
38	PPP for School Infrastructure Project Phase II - Package A	DepEd

39	PPP for School Infrastructure Project Phase II - Package E	DepEd
40	San Roque Multi-purpose Hydroelectric Powerplant	NPC
41	South Luzon Expressway (SLEX) Toll Roads 1, 2, 3, 4	PNCC/TRB
42	Southern Tagalog Arterial Road (STAR)	DPWH
43	Sual Coal-Fired Thermal Power Plant	NPC
44	Subic Water and Sewerage Project	MWSS
45	Taguig City Integrated Terminal Exchange	DOTr
46	Tarlac-Pangasinan-La Union Expressway Project – TPLEX	DPWH