Fiscal Risks Statement

DEVELOPMENT BUDGET COORDINATION COMMITTEE

2025

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EXECUTIVE SUMMARY

A. In 2023, the Philippine economy remained resilient despite a challenging domestic and global macro environment caused by persistent high inflation and the concomitant tighter monetary environment. The economy gained momentum in the second half of the year, supported by catch-up initiatives on government expenditures, easing inflation, and robust investment growth. This positive trend continued into Q1 2024, with the economy expanding by 5.7 percent, despite ongoing domestic and external headwinds. Looking ahead to 2025, the Philippine economy is expected to maintain its trajectory as the government remains committed to ensuring stable prices, boosting investments, creating job opportunities, forging strategic foreign trade agreements, exploring bilateral arrangements, and leveraging emerging technologies to foster digital economy expansion.

B. Government spending surged notably due to robust investments in infrastructure, in line with the Administration's *Build-Better-More* Program and capital outlay projects. However, there may be a slowdown in project execution during the first half of 2025 on account of the upcoming midterm National and Local elections. In the immediate future, the government remains focused on adhering to the Medium-Term Fiscal Framework (MTFF), and prioritizing expenditures that align with the policy directions outlined in the Philippine Development Plan 2023-2028 which embodies the Administration's 8-Point Socioeconomic Agenda.

C. In 2023, the Philippine government managed to reduce its fiscal deficit due to better tax collection. Ongoing tax reform initiatives, such as the Ease of Paying Taxes (EOPT) law, and further digital upgrades aim to streamline tax administration and increase transparency. Proposed reforms such as Package 4 of the Comprehensive Tax Reform Program of the Passive Income and Financial Intermediary Tax Act (PIFITA), value-added tax (VAT) on non-resident digital service providers, excise taxes on single-use plastics, and rationalization of the mining fiscal regime are anticipated to further bolster revenues and support economic recovery initiatives.

   On June 13, 2024, President Ferdinand Marcos Jr. signed the Real Property Valuation and Assessment Reform Act (RPVARA) into law. This will enhance the quality of local government unit (LGU) valuations, significantly improving revenue generation and resource mobilization, and enabling LGUs to better provide basic public needs.

D. The national government (NG) debt is eminently sustainable. The debt profile remains resilient and entails a reduced likelihood of debt distress, with favorable interest-growth differentials and sustained fiscal adjustments acting as the key drivers of medium-term debt reduction. Potential risks to the projected debt path include adverse growth surprises and missed revenue and expenditure targets. Nevertheless, prudent debt management practices continue to help mitigate risks from abrupt market movements and large amortizations, while reforms to deepen the capital markets are expected to ease financing constraints.

E. In 2023, the country's external sector showed resilience with adequate liquidity buffers, shielding the domestic economy from external uncertainties. The current account deficit improved notably, driven by a reduced trade deficit as imports fell more than exports. By April 2024, gross international reserves stabilized at a level exhibiting adequate liquidity, while the external debt-to-gross domestic product (GDP) ratio remained prudent, indicating the country's ability to manage foreign obligations, supported by a predominantly medium- to long-term debt profile.

F. The banking sector concluded the year with a robust balance sheet, profitable operations, and strong buffers, demonstrating sustained resilience and strength amid improved macroeconomic conditions. Additionally, the Bangko Sentral ng Pilipinas (BSP) continued to phase out regulatory relief measures in line with ongoing economic recovery, while closely monitoring banking sector developments to mitigate associated risks.

G. The Department of Finance (DOF) remains dedicated to enforcing fiscal discipline across government-owned and controlled corporations (GOCCs), including government financial institutions (GFIs) and social security institutions (SSIs), collectively referred to as the Government Corporate Sector. The DOF hiked GOCCs' dividend rates to 75 percent from 50 percent which became one of the major sources of non-tax revenues. This initiative allows the NG to support infrastructure development, fund cash aid programs, and steer the economy toward sustainable growth. The DOF continues to prioritize expenditures aligned with the 8-Point Socioeconomic Agenda, enhancing the effectiveness of GOCCs in advancing national economic goals.

H. Additionally, 2023 saw the enactment of Republic Act (RA) No. 11966, known as the Public-Private Partnerships (PPP) Code of the Philippines, aimed at establishing a unified framework for PPPs. The Code seeks to foster a stable and predictable environment to enhance collaboration between the public and private sectors, with its Implementing Rules and Regulations (IRR) effective April 6, 2024.

I. On July 9, 2024, the Philippines was chosen to host the Loss and Damage Fund Board (LDFB), highlighting its dedication to global climate action and equity. This role provides the country with opportunities to display its disaster risk management expertise, access LDF resources, benefit from capacity-building and technology transfer, and stimulate economic growth through increased tourism, business, and local employment. Currently, the Philippines is passing legislation to grant legal status to the LDFB as required for its hosting role.

MACROECONOMIC ASSUMPTIONS AND PERFORMANCE

1. **The Philippine economy sustained its growth at 5.5 percent in 2023.** While this is below the government's growth target of 6.0 to 7.0 percent, the Philippines emerged as one of the best-performing economies in Asia as it expanded faster than China (5.2 percent), Indonesia (5.0 percent), Vietnam (5.0 percent), and Malaysia (3.7 percent). Moreover, the full-year GDP for 2023 is now 8.6 percent higher than pre-pandemic levels.

In detail, the economy grew by 6.4 percent in Q1 before moderating to 4.3 percent in Q2, partly due to base effects of election-related spending in Q2 2023, normalizing demand, the persistence of high inflation, the lagged effect of interest hikes, and government underspending. In Q3, the economy regained momentum as it posted a 6.0 percent growth driven by broad-based expansion across sectors and a stronger domestic demand supported by the implementation of the government's catch-up plans and easing inflation. In Q4, the economy expanded by 5.5 percent, buoyed by strong investment growth (11.6 percent).

In the first quarter of 2024, the Philippine economy remained resilient as it expanded by 5.8 percent, despite challenges on both domestic and international fronts. Real GDP per capita grew by 4.8 percent. On a seasonally adjusted quarter-on-quarter basis, the economy expanded by 1.1 percent. The first quarter growth outturn is slightly lower than the 5.9 percent median forecast of private-sector analysts for the same period.[1]

Table 1. Philippines: Macroeconomics Performance for 2021-2024 and National Government Budget Assumptions for 2023 [a/]

(in percentage points, unless otherwise specified)

	2021		2022		2023		2024	
Particulars	**BESF**	**Actual**	**BESF**	**Actual**	**BESF**	**Actual**	**BESF**[b/]	**YTD**
Real GDP growth [c/]	6.5-7.5	5.7	7.0-9.0	7.6	6.5-8.0	5.5	6.5-8.0	5.8 (Q1 2024)
Inflation[d/] (2018=100)	2.0-4.0	3.9 [d/]	2.0-4.0	5.8	2.0-4.0	6.0	2.0-4.0	3.4 (Jan-Apr)
364-day T-bill rate[e/]	3.0-4.5	1.7	2.0-3.5	2.5	5.5-6.5	6.0	4.0-5.5	6.0 (Jan-Mar)
6-month LIBOR[f/]	1.0-2.0	0.2	0.3-1.3	2.9	3.0-4.0	5.2	n.a	n.a
6-month SOFR[g/]	n.a.	0.1	n.a.	2.5	4.0-5.0	5.2	3.5-4.5	5.2 (Jan-Apr)
Exchange rate *(Ph₱/US$1)*	50.00-54.00	49.25	48.00-53.00	54.48	54.00-57.00	55.63	53.00-57.00	56.21 (Jan-Apr)
Dubai crude oil price *(US$/barrel)*	35.00-50.00	68.77	50.0-70.00	97.05	70-90	82.98	70-90	83.53 (Jan-Apr)

[1] https://www.bworldonline.com/top-stories/2024/05/06/592855/economic-growth-likely-faster-in-q1/ (Accessed May 7, 202)

Merchandise exports growth[h/]	5.0	12.5[r/]	6.0	6.4	1.0	-4.1	6.0	n.a.
Merchandise imports growth[h/]	8.0	30.5[r/]	10.0	19.0	2.0	-5.0	8.0	n.a.

Sources: NEDA, PSA, BTr, and BSP, and FY 2021-2024 Budget of Expenditures and Sources of Financing (BESF)
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 Congress for the preparation of the General Appropriations Act (GAA)
b/ Based on FY 2024 BESF
c/ BESF targets and actual figures are 2018-based.
d/ 2012-based average CPI inflation for 2021 is 4.5 percent.
e/ Based on the weighted average of primary market rates
f/ The Secured Overnight Financing Rate (SOFR) replaced the London Inter-Bank Offered Rate (LIBOR) in the BESF macroeconomic indicators as LIBOR ceased publication in June 2023
g/ During the DBCC Executive Technical Board Meeting on November 25, 2022, the Secured Overnight Financing Rate (SOFR) was approved as a replacement for London Interbank Offered Rate (LIBOR) which ceases publication in June 2023
h/ Based on the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6) concept.
r/ - revised actual
n.a. – not available

2. **On the expenditure side, FY 2023 growth was largely driven by domestic demand (5.0 percent).** This was led by private consumption (5.6 percent), followed by investments (5.9 percent) buoyed by firm growth in fixed capital, particularly in construction. Meanwhile, government final consumption expenditure posted muted growth (0.6 percent) largely owing to the underspending in the second quarter and lower Maintenance and Other Operating Expenses (MOOE) due to fiscal consolidation in the fourth quarter. Net exports saw a marginal growth of just 0.3 percent.

   In Q1 2024, growth in domestic demand moderated to 3.4 percent from 5.8 percent in Q4 2023. Total investments marginally grew by 0.5 percent from 11.6 percent in Q4 2023 amid less favorable business sentiment during the period. Meanwhile, growth in government expenditure remained muted at 1.7 percent due to lower subsidies to government corporations and differences in the timing of public disbursements compared to last year[2]. Household spending also eased to 4.6 percent from 5.3 percent in Q4 2023 amid the sweltering heat indices, elevated food prices, and trend normalization in travel and leisure-related spending. On a positive note, net export growth rebounded to 12.1 percent in Q1 2024, a reversal from -14.9 percent in Q4 2023, driven by the recovery in exports of electronic products.

3. **On the production side, the services sector remained the main driver of growth, posting a 7.1 percent increase for FY 2023.** Sector performance was supported by trade (5.5 percent), transport & storage (13.0 percent), professional & business services (6.7 percent), accommodation & food services (23.2 percent), and other services (20.8 percent). Meanwhile, growth in the industry sector (3.6 percent) was primarily driven by manufacturing (1.3 percent), mining & quarrying (2.0 percent) and construction (8.8 percent). The agriculture sector grew by 1.2 percent, benefiting from minimal weather disturbances. For FY 2023, most sectors exceeded their pre-pandemic levels except for mining & quarrying, accommodation & food service activities, real estate, and other services.

   In Q1 2024, growth was driven by the industry sector, which expanded by 5.1 percent in Q1 2024 from 3.1 percent in Q4 2023, particularly manufacturing (4.4 percent) on account of higher output in electronics and chemical products. Meanwhile, growth in the services sector moderated to 6.9 percent from 7.4 percent in Q4 2023, due to the normalization of tourism-related activities, notably in transport & storage (5.4 percent) accommodation and food services (13.1 percent), and other services (9.0 percent). The

[2] This year, the ₱15 Billion Coco Levy Fund was released in April, while the same was released in March last year.

agriculture sector posted a weak growth of 0.5 percent from 1.3 percent in Q4 2023 amid the damage due to El Niño, which caused declines in palay (-2.0 percent) and livestock (-3.4 percent) output.

4. **Headline inflation remained elevated in 2023, averaging 6.0 percent year-on-year, higher than the previous year's average and above the government's target range of 2-4 percent.** Inflation remained elevated, primarily driven by food inflation. Tight supply conditions, combined with strong demand and rising international market prices, led to a surge in retail prices of rice in H2 2023. Given the sizable weight of rice in the consumer price index (CPI) basket, its rising costs contributed significantly to inflation. At the same time, inflation of other food commodities such as fruits, vegetables, and fish hovered above the target range due to adverse weather conditions alongside other barriers constraining food trade.

   For January-April 2024, headline inflation averaged 3.4 percent, within the government's 2-4 percent target range and lower than the full-year averages in 2022 and 2023. The slowdown can be traced to easing inflation in key food items such as fish and fruits. While transport inflation remained muted, year-on-year inflation for fuels and lubricants for personal transport equipment accelerated in March and April 2024, following negative readings from March 2023 to February 2024. On average, inflation for housing, water, electricity, gas, and other fuels also slowed considerably relative to the previous year. However, it should be noted that inflation started to accelerate in February through April 2024, mainly due to the persistence of elevated rice prices.

5. Given persistent price pressures and upside risks to the country's inflation outlook, the BSP continued to tighten its monetary policy in 2023 causing domestic market interest rates to rise. **The average 364-day Treasury bill (T-bill) rate in the primary market increased markedly to 6.0 percent in 2023 from 2.5 percent in 2022**, settling above the BESF assumption range of 3.0-4.5 percent for 2023. In the secondary market, interest rates rose to 5.9 percent in 2023 from 5.2 percent in 2022. The BSP increased its key policy rate by a cumulative 100 basis points (bps) in 2023 to address inflationary pressures, anchor inflation expectations, and dampen second-round effects from supply-side factors.

   In the first four months of 2024, the average 364-day T-bill rate stayed at 6.0 percent, reflecting the tight monetary policy stance of the BSP amid high domestic inflation expectations, and elevated foreign interest rates consequent to the actions taken by monetary authorities across the globe to rein in inflation.

6. Foreign interest rates remained elevated as central banks kept monetary policy tight to temper inflation pressures and the risk of renewed increases in energy prices, as well as other traded goods that could emanate from a possible escalation of geopolitical tensions in the Middle East. **The average 180-day London Interbank Offered Rate (LIBOR) rose significantly to 5.2 percent in 2023 from 2.9 percent in 2022. Similarly, the 6-month Secured Overnight Financing Rate (SOFR),**[3] which replaced LIBOR in the BESF macroeconomic assumptions, **rose markedly to 5.2 percent in 2023 from 2.5 percent in 2022.**

   From January to April 2024, the average 6-month SOFR stood at 5.2 percent. Elevated foreign interest rates reflected expectations that central banks would keep monetary policy tight until inflation goals were reached. The US Federal Reserve (US Fed) and the Bank of England kept their respective policy rates unchanged at 5.25-5.5 percent and 5.25 percent, respectively, from September 2023. Likewise, the European Central Bank held its policy rate steady since October 2023 and is expected to keep a sufficiently restrictive stance necessary to steer inflation to target.

[3] The Secured Overnight Financing Rate (SOFR) is a global benchmark rate for loans denominated in US dollars. It replaced London Inter-Bank Offered Rate (LIBOR) in the macroeconomic assumptions as LIBOR ceased publication in June 2023.

7. Heightened market risk aversion due to concerns over escalating geopolitical tensions between Israel and Hamas, and expectations of further interest rate increases by the US Fed contributed to the depreciation of the peso against the US dollar in 2023. **The peso-dollar rate averaged ₱55.63/US$ in 2023, slightly higher than the BESF assumption of ₱51.00-55.00/US$ for 2023 and the 2022 average of ₱54.48/US$.**

   The peso continued to depreciate in the first four months of 2024, averaging ₱56.21/US$, higher relative to the ₱54.97/US$-mean recorded in the same period in 2023. The depreciation of the peso was influenced by the broad strength of the US dollar amid market expectations of a delay in the US Fed's monetary policy easing, as well as lingering geopolitical tensions in Gaza and the Middle East. On the domestic front, dampened market sentiment amid the elevated inflation outlook in Q2 2024 contributed to the depreciation of the peso. Meanwhile, robust economic growth prospects for 2024-2025 and a narrower trade deficit in March 2024 helped moderate depreciation pressures on the peso.

8. **Dubai crude oil prices decreased in 2023.** The average price settled at US$81.98 per barrel in 2023, which was substantially lower than the previous year's average of US$97.05 per barrel, and close to the low end of the BESF assumption range of US$80.00-100.00 per barrel for the year. Subdued global oil demand prospects due to the high global interest rate environment as well as the weak economic performance of major economies weighed down international oil prices. Nonetheless, increased voluntary oil supply cuts by the Organization of the Petroleum Exporting Countries and its allies (OPEC+), and expectations of oil supply disruptions due to geopolitical tensions in the Middle East in Q4 2023 offset the decrease in crude oil prices.

   Meanwhile, Dubai crude oil spot price increased in the first four months of 2024 compared to the average of US$80.65 per barrel during the same period in 2023. The spill-over of geopolitical tensions in the Middle East, including the Houthi attacks in the Red Sea, and the ongoing war between Russia and Ukraine have raised the geopolitical risk premium in world oil prices. OPEC+ oil supply cuts also continued to contribute to higher global oil prices thus far in 2024.

9. **The preliminary trade-in-goods performance in 2023 showed lower actual outturns than the initial projections published in the 2023 BESF in mid-2022.** Goods exports decelerated from initial expectations, reflecting the slowdown in external demand, as persistent inflation squeezed real incomes and undermined consumption and investment. At the same time, world semiconductor sales weakened from H2 2022 to Q3 2023 reflecting softer global demand conditions and a downturn in the global semiconductor market. Moreover, lower commodity prices in 2023 relative to the surge in 2022 largely caused goods imports to contract, along with weaker export and manufacturing activity.

10. **Goods exports in 2023 fell by 4.1 percent YoY to US$55.3 billion from US$57.7 billion, against the backdrop of easing prices of export commodities and slower global economic activity.** Lower export numbers reflected the 4.8 percent decline in shipments of electronic products. Moreover, exports of coconut products (particularly coconut oil) and other mineral products, such as coal, nickel ores, and nickel oxide sinters decreased by 44.2 percent and 18.3 percent, respectively, partly on account of the decline in commodity prices relative to 2022.

11. **Likewise, goods imports decreased by 5.0 percent to US$121.1 billion in 2023 from US$127.4 billion in the same period in 2022, following the decline in international commodity prices.** Imports of other mineral fuels and lubricants (largely gas oils) fell by 14.9 percent, while the combined imports for coal and coke, and materials/accessories for the manufacture of electrical equipment declined by a little more than 30 percent. On a by-country basis, lower shipments from South Korea, Taiwan, and Japan

contributed mainly to the decline in total imports for 2023.

Macroeconomic Outlook and Sources of Risks for 2024 and 2025

12. **The International Monetary Fund (IMF)[4] maintained its global economic growth forecast at 3.2 percent for 2024** amid a slowdown in the United States and Japan in the first quarter of the year, while China and the Euro area recorded better-than-expected developments. While risks to the outlook remained balanced, the resurgence of upward inflationary pressures may slow growth, particularly with renewed geopolitical and trade tensions, higher-for-even-longer interest rates, and policy discontinuity following the election results in several countries.

13. The Philippine economy is currently on course to attain the government's growth target of 6.0 to 7.0 percent in 2024.[5] Given the Q1 2024 growth outturn, the economy needs to grow by 6.1 to 7.4 percent in the remaining quarters of 2024 to achieve the Development Budget Coordination Committee's (DBCC) approved growth target by the end of the year. Private and international financial institutions' median growth estimate for the country stood at 6.0 percent for 2024, while the mean forecast is at 5.9 percent.

14. Amid evolving risks and challenges, **the economic outlook for the Philippines remains promising, with domestic demand expected to remain firm and further improve in the near and medium term.** Household spending will be supported by easing inflation, sustained improvements in labor market conditions, and stable growth of remittances. Growth in government spending will be supported by the prompt and efficient execution of government programs and projects. The Luzon Economic Corridor (LEC) is expected to attract high-impact investments in rail, port modernization, and renewable energy. The full implementation of the PPP Code is also seen to increase the private sector's participation in various infrastructure projects. On the external front, the semiconductor, agribusiness, and green minerals sectors also stand to benefit from the Philippines' trilateral agreement with the US and Japan through an improved supply chain and wider market access under the LEC.

15. **However, risks to the growth outlook remain.** On the domestic front, risks include climate change impacts (e.g., increasing intensity of weather conditions and extreme natural disasters), inflation-related risks (e.g., adjustments in fare, wage, and service utility fees that are above expectations), possible spread of infectious animal diseases, the passage of tax/revenue eroding measures, delay in the passage of critical reforms, and the weak absorptive capacity of implementing agencies and LGUs. Moreover, growing geopolitical and trade tensions, protracted global economic slowdown, elevated global interest rates, and trade-restrictive measures of food-exporting countries can also weigh down growth in the near term. Nevertheless, the economic managers are proactively monitoring these risks and are putting in place mitigating measures.

16. **The latest BSP assessment as of the 8 April 2024 monetary policy meeting indicates that inflation will settle within the government's target of 2-4 percent in 2024 and 2025, with risks to the inflation outlook leaning toward the upside for both years.[6]** Possible further price pressures could emanate from higher transport charges, higher prices of food commodities facing supply constraints, increased electricity rates, higher global oil prices, & implementation of a legislated increase in the minimum wage.

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[4] IMF. (2024). "World Economic Outlook: Global Economy in a Sticky Spot. July 2024. Imf.org." https://www.imf.org/en/Publications/WEO/Issues/2024/07/16/world-economic-outlook-update-july-2024 (accessed July 26, 2024)

[5] Based on the DBCC-approved targets during the 187th DBCC Meeting last March 22, 2024.

[6] As of April 8, 2024, monetary policy meeting, the BSP's baseline forecasts indicate that headline inflation could average at 3.8 percent in 2024 and at 3.2 percent in 2025. Meanwhile, risk-adjusted forecasts indicate headline inflation could reach 4.0 percent in 2024 and 3.5 percent in 2025.

The BSP continues to support the national government's policies and programs to address persistent supply-side pressures on prices and sustain the disinflation process. The whole-of-government strategies such as those implemented by the Interagency Committee on Inflation and Market Outlook and the Economic Development Group continue to be crucial in ensuring that inflation remains within the government's target.

17. The possible protraction and escalation of geopolitical conflict in the Middle East could constrain global oil supply, posing upside pressures on international commodity prices. A risk analysis by the IMF in its World Economic Outlook (WEO) for April 2024 suggests that a sharp increase in international oil prices and shipping costs could delay the slowdown in inflation and consequently, the monetary policy easing of central banks. In turn, sustained tight monetary policy conditions could weigh on domestic aggregate demand.

18. **Based on the IMF April 2024 WEO, risks to global growth prospects are now broadly balanced,** with prominent downside risks coming from potential commodity price spikes due to supply shocks being triggered by the ongoing and possible escalation of geopolitical conflicts; tighter financial conditions as interest rates remain higher for longer amid a possible resurgence of inflation; intensified geoeconomic fragmentation; and slower-than-expected growth in China, among others. Meanwhile, upside risks could be seen emanating from short-term expansionary fiscal measures due to upcoming elections in major economies, gains from structural reforms, and productivity boosts from Artificial Intelligence.[7]

19. **On global trade, the World Trade Organization (WTO) forecasts world merchandise trade volume to recover gradually in 2024 amid moderating global inflation, supporting a rebound in consumption demand and eventually in investment spending**.[8] However, persistent geopolitical tensions, rising shipping costs (as the conflict in the Middle East has diverted sea shipments between Europe and Asia), and high levels of debt weighing on economic activity in many countries could undermine the recovery in global trade.[9]

20. **Economic slowdown in China could have negative spillovers to trading partners.** Commodity exporters and countries that are part of the Asian industrial supply chain are the most exposed to China's loss of economic momentum. AMRO (2023) estimates that if China's economy slows by one percentage point below the baseline forecast, the aggregate growth for other ASEAN+3 economies could be 1.6 percentage points lower, resulting from a decrease in trade, investment, and tourism.[10] Oxford Economics (2023) estimates that the impact of a weaker China will be felt mostly through the real economy channel as its global financial links are relatively modest. Given the substantial weight of China in the world economy in terms of trade, stock market capitalization, and demand, a sharp slowdown in China's growth would have significant global effects, of which the largest impacts are on economies with deep trade links with China.[11]

21. **Tensions between China and the US surrounding trade and technology remain high but could be a source of a positive spillover effect to the Philippines**. Any escalation, through additional or broader restrictions on either side, could adversely impact existing trade and investment flows to the region and in the Philippines, given the interconnectedness in global supply chains,[12] particularly with Asian

[7] IMF (2024). "Steady but Slow: Resilience amid Divergence", IMF World Economic Outlook (WEO). April 2024

[8] WTO (2024). Global Trade Outlook and Statistics. April 2024.

[9] UNCTAD (2024). Global Trade Update. March 2024.

[10] ASEAN+3 Macroeconomic Research Office (AMRO). Quarterly Update of the ASEAN+3 Regional Economic Outlook (AREO). October 2023.

[11] Oxford Economics Global Research Briefing. "Spillovers from a weaker China likely to be modest." October 4, 2023.

[12] AMRO. ASEAN+3 Regional Economic Outlook (AREO). October 2023.

exporters heavily exposed to both economies. The opposing trade policies of leading presidential nominees in the U.S. should also be monitored. Democratic nominee Kamala Harris is likely to continue incumbent President Joe Biden's policies which oppose across-the-board tariffs, but instead favor targeted tariffs on imports such as steel and aluminum from China amid accusations that China engages in unfair trade practices. Meanwhile, Republican nominee Donald Trump has expressed a desire to impose 60 to 100 percent tariffs on Chinese goods.[13] Nonetheless, the enactment of the Creating Helpful Incentives to Produce Semiconductors (CHIPS) and Science Act is seen as a positive development in terms of ensuring better water supply for the assembly, testing, and packing of integrated circuits in the Philippines. It may also open more investment opportunities for the Philippines. Under the International Technology Security and Innovation (ITSI) Fund, created by the CHIPS Act, the US Department of State will collaborate with the Philippine government to explore opportunities to grow and diversify the global semiconductor ecosystem. Not only will this partnership strengthen the collective supply chain resilience of the electronics industry, it will also advance the Philippines' role in chip design and the overall electronics landscape. In January 2024, the US named the Philippines as one of the seven nations selected by the US to receive a US$500 million financial aid under the CHIPS Act which could make the Philippines' local semiconductor industry more conducive to US investors.[14]

22. **Meanwhile, another potential upside is the opportunity to boost Philippine exports through the strategic utilization of various trade agreements** such as the Regional Comprehensive Economic Partnership (RCEP), the recently signed Philippine and South Korea Free Trade Agreement (PH-KR FTA), a renewed European Union Generalized System of Preference Plus (GSP+), the United Kingdom's Developing Countries Trading Scheme (DCTS), and the possible renewal of the US Generalized System of Preferences (GSP). Additionally, exploring non-traditional markets, such as the Philippine–United Arab Emirates Comprehensive Economic Partnership Agreement (PH-UAE CEPA), could aid the country's efforts to enhance its competitiveness on the global stage.

23. **The economy is projected to pick up to 6.5 to 7.5 percent in 2025**,[15] supported by robust domestic economic activities and a recovery in external demand. Capital formation is seen to continue expanding, propped up by the implementation of investment-inducing reforms (e.g., PPP Code) and the government's Build, Better, More, and *Pambansang Pabahay Para sa Pilipino* (4PH) programs. Household spending will continue to improve amid easing inflation, better labor market conditions, and a steady flow of remittances. NEDA estimates that the Philippines is still on track to meet the upper middle income (UMIC) threshold by 2025.

24. 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 such as 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 discussed in further detail in the Philippine Development Plan 2023-2028.

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[13] Pitas, Costas and Heavey, Susan. "2024 election: Who is running for US president?". Reuters. August 5, 2024. https://www.reuters.com/world/us/who-are-candidates-running-2024-us-presidential-election-2023-09-19/

[14] PNA (2024). US picks PH as one of partner countries under CHIPS Act. January 30, 2024.

[15] Based on the DBCC-approved targets during the 187th DBCC Meeting last March 22, 2024.

Risk Mitigation Measures and Initiatives

25. **To achieve the country's growth targets, the government will prioritize managing food inflation, including the use of strategic trade policy tools to address elevated prices of rice and other food items.** This will be complemented by strong law enforcement against unscrupulous market practices and regular assessment of demand and supply situations to ensure the timeliness and responsiveness of the country's trade policies. The government will intensify the country's disaster management to mitigate the impact of extreme weather events on lives, livelihoods, and food security. The government will also expedite the roll-out of social protection programs for the poor and vulnerable sectors to sustain gains in poverty reduction.

    Growth in government expenditures will be sustained by prioritizing the completion of key programs, activities, and projects (PAPs) under the FY 2024 budget. The timely passage of the FY 2025 National Budget, coupled with early procurement activities before the spending ban given next year's national election, is crucial to sustaining growth. The timely issuance of the implementing rules and regulations of the New Government Procurement Act will be expedited, alongside the provisioning of appropriate training to government personnel and other stakeholders on the new procedures.

26. **The government continues to spur investments and create employment opportunities such as the "Build-Better-More" Program.** The impediments of right-of-way acquisition and procurement procedures will be addressed. Implementing the PPP Code is also expected to increase private sector participation in financing infrastructure and development projects. **The country will also continue to facilitate business expansions and maximize new investments in the Luzon Economic Corridor (LEC).** To further ease the doing of business, the Anti-Red Tape Authority's (ARTA) electronic Business One-Stop Shop (eBOSS) program will be fully implemented.

27. **The country can leverage stronger ties with key economic partners while pursuing new trade agreements,** such as with the United Arab Emirates and the European Union. The government will also expand ties with top visiting countries to the Philippines to improve the tourist experience and fuel recovery in international visitor arrival.

28. **The country's digital infrastructures and technological skills will be upgraded to boost growth in the digital economy.** The passage of the Konektadong Pinoy Bill will be sought to improve the accessibility and quality of internet connectivity across the country, which would help spur growth in e-commerce and professional and business services, among others. The government will accelerate the full implementation of the Philippine Digital Workforce Competitiveness Act, which will strengthen the workforce capacity for sustainable digital transformation, innovation, and entrepreneurship. The corresponding strategies will be integrated into the upcoming *Trabaho para sa Bayan* Plan.

FISCAL PERFORMANCE

Expenditure Performance

2023 Disbursement Performance[16]

29. **As of December 2023, NG spending was recorded at ₱5,336.2 billion, higher by ₱176.6 billion or 3.4 percent year-on-year (YoY), and 2.1 percent or ₱107.8 billion higher than the ₱5,228.4 billion program.** The 2023 disbursement performance was driven mainly by robust spending in infrastructure and other capital outlay projects (₱189.3 billion or 18.7 percent YoY), interest payments (₱125.5 billion or 25.0 percent YoY), and Personnel Services (PS) (₱57.4 billion or 4.2 percent YoY).

    Aligned with the Build Better More Program of the Administration, infrastructure and capital outlay spending remained robust, driven primarily by the improved spending performance of the Department of Public Works and Highways (DPWH) compared to its increased target disbursements. This was supported by the constant monitoring of project accomplishments and the expedited processing and settlement of its accounts payable. Additionally, sizable payments made by the country's development partners for various foreign-assisted projects of the Department of Transportation (DOTr) (e.g., South Commuter Railway Project, Malolos-Clark Railway Project, North-South Commuter Railway Project, and Metro Manila Subway Project) further contributed to the rise in infrastructure spending in 2023.

    Interest payments also contributed to the higher spending in 2023, on account of the higher SOFR, coupon payments for Global bonds, coupon payments for FY 2021-2022 issuances of retail treasury bonds, additional issuances of fixed-rate treasury/benchmark bonds, foreign exchange fluctuations, higher interest rates, and interest for new loan availments from International Bank for Reconstruction (IBRD), Asian Development Bank (ADB), and Japan International Cooperation Agency (JICA).

    Meanwhile, the growth in personnel services (PS) expenditures was primarily attributed to the implementation of the fourth tranche of the Salary Standardization Law (SSL) V, the filling of vacant positions, and the release of retirement and terminal leave benefits in various agencies.

30. Compared to the program, spending performance was also higher, driven by increased infrastructure disbursements from the DPWH and the DOTr, as well as higher interest payments, among other factors.

Inflation Subsidies

31. **To protect the purchasing power of Filipino households from the high costs of fuel and other basic commodities, the government has provided funding to PAPs in the 2023 General Appropriations Act (GAA) to support the most vulnerable sectors.** This aims to provide assistance and targeted relief to the transport and agriculture sectors amid high fuel prices, as well as protect the most vulnerable population from the adverse impacts of rising prices of fuel and other non-fuel commodities. Some ₱26.23 billion were released to carry out these programs which include: (i) Fuel Subsidy Program (DOTr), ₱3.0 billion; (ii) Service Contracting of PUV Program (DOTr), ₱1.29 billion, (iii) Fuel Assistance to Farmers and Fisherfolks (DA), ₱950 million; (iv) Fertilizer Discount Voucher Program (DA), ₱13.31 billion; and (v) TCT Program (DSWD), ₱7.68 billion.

[16] Department of Budget and Management (DBM), National Government Disbursement Performance Report (as of December 2023), available at https://www.dbm.gov.ph/index.php?view=article&id=1088&catid=201

Outlook for 2024

32. **The 2024 National Budget of ₱5.768 trillion is equivalent to 21.1 percent of GDP, and 9.5 percent higher than the FY 2023 Budget of ₱5.268 trillion.**

The FY 2024 National Budget is anchored on the theme "Agenda for Prosperity: Securing A Future-Proof and Sustainable Economy". Guided by the MTFF, the National Budget was crafted to embody the expenditure priorities and policy directions under the 8-Point Socioeconomic Agenda of the Administration. This includes the following spending priorities:

Table 2. Philippines: Spending Priorities under the FY 2024 GAA

Purpose	Programs under the FY 2024 GAA
Ensure Food Security	● Irrigation Services ● National Rice Program ● Rice Competitiveness Enhancement Fund ● Buffer Stocking Program
Reduce Transport and Logistics Costs	● Rail Transport Program ● Network Development Program ● Farm-to-Market Roads ● Land Public Transportation Program
Reduce Energy Costs	● Fuel Subsidy Program ● National Rural Electrification Program ● Energy Efficiency and Conservation Program ● Renewable Energy Development Program
Improve Health	● National Health Insurance Program ● Health Facilities Enhancement Program ● Medical Assistance to Indigent and Financially Incapacitated Patients ● Public Health Emergency Benefits and Allowances for Health Care and Non-Health Care Workers
Address Learning Losses	● Universal Access to Quality Tertiary Education Program ● Education Assistance and Subsidies ● Basic Education Facilities ● Textbook and Other Instructional Materials
Strengthen Social Protection	● *Pantawid Pamilyang Pilipino* Program ● Social Pension for Indigent Senior Citizens ● Protective Services for Individuals and Families in Difficult Circumstances ● Emergency Repatriation Program
Ensure Sound Fiscal Management	● Revenue Information Systems Development and Infrastructure Support ● Development of the Treasury Single Account ● Public Financial Management Program
Enhance Bureaucratic Efficiency	● Provision of Consular Services ● Justice System Infrastructure Program ● National Government Data Center Infrastructure ● Philippine Identification System

Other Highlights	● Climate Change Expenditures ● Flood Management Program ● *Tulong Panghanapbuhay Sa Ating* Disadvantaged/Displaced Workers (TUPAD) Program ● Grants-in-Aid Program

Sources of Fiscal Risks, Risks Mitigating Measures and Initiatives

33. *Concerns on over/underspending*

The NG posted an underspending of ₱170.5 billion in the first semester of 2023. However, full-year disbursements exceeded the target of ₱5,228.4 billion by ₱107.8 billion, or 2.1 percent. While disbursements historically accelerate during the second half of the year – particularly before the closing of books and the lapsing of Notices of Cash Allocations (NCAs) at year-end –, it is important to note that catch-up measures and close coordination between oversight and line agencies also play an important role in boosting disbursements.

For instance, the Department of Budget and Management (DBM) issued Circular Letter No. 2023-10 on August 9, 2023, requiring line agencies to identify programs and projects with historically low disbursement rates and those with anticipated implementation delays through the submission of the latest available financial and physical accomplishments, the status of major or flagship programs and projects with significant budget allocations, and catch-up plans to address implementation bottlenecks and meet performance targets for the year. Additionally, sectoral meetings are regularly conducted by the President, along with other inter-agency committee efforts, to coordinate implementation across agencies and escalate issues that require inter-sectoral solutions.

The NG shall remain vigilant in monitoring the disbursement program and shall continue advocating for reforms aimed at enhancing government accountability over fiscal resources. Factors contributing to underspending or overspending include but are not limited to, the efficiency of agencies in executing their programs and projects, as well as risk events such as weather disturbances, external developments, supply chain disruptions, and potential slowdowns in project implementation due to the upcoming local and national elections in 2025. Consistent monitoring of agency outcomes and the refinement of proposals in line with budget priorities and absorptive capacities, as well as the recommendation of pertinent issuances thereto, shall be employed to mitigate under or overspending and ensure the continued delivery of public goods and services.

2022-2028 Medium-Term Fiscal Framework

The 2022-2028 Medium-Term Fiscal Framework (MTFF) is a six (6)-year fiscal planning document jointly acknowledged and adopted by the Executive and Legislative Branches of the government. The MTFF espouses the NG's fiscal consolidation strategy founded upon the need to address the fiscal strain brought about by external shocks in recent years (e.g., COVID-19 pandemic, elevated inflation environment, tight monetary conditions, and global economic slowdown) as well as the need and aspiration to transform the economy. This document serves as the blueprint by which laws and policies shall be crafted and implemented to achieve the goals of macro-fiscal stability in the short term, and robust economic growth and fiscal sustainability in the medium term.

Table 3. Philippines: Macroeconomic and Fiscal Targets under the MTFF

Target	Latest Actual
6.5% to 7.5% real GDP growth in 2022	7.6% (full year 2022)
6.5% to 8.0% real GDP growth in 2023	5.5% (full year 2023)
9% (i.e., single digit) poverty rate by 2028	18.1% (2021) 15.5% (2023)
3% NG deficit-to-GDP ratio by 2028	7.3% (full year 2022) 6.2% (full year 2023)
Less than 60% NG debt-to-GDP ratio by 2025	60.9% (full-year 2022) 60.1% (full-year 2023)
At least $4,256 GNI per capita (attainment of upper-middle income status)	$3,950 (2022) $4,230 (2023)
Infrastructure Disbursements (as % of GDP)	5.8% (full-year 2022) 5.8% (full-year 2023)

Status: It may be noted that the government is on track with its fiscal consolidation efforts as the deficit posted at 6.2 percent of GDP in 2023, a marked improvement from the 7.3 percent recorded in the previous year. Likewise, the debt-to-GDP ratio as of December 2022 reached 60.9 percent vis-à-vis the MTFF target of 61.8 percent, and as of December 2023, it reached 60.1 percent vis-à-vis the MTFF target of 61.2 percent.

However, there is a need to re-balance fiscal consolidation efforts and stimulate the domestic economy in light of various upside and downside risks such as (i) persistently high inflation and interest rate environment; (ii) geopolitical tensions (e.g., Russia-Ukraine War, Israel-Gaza conflict); (iii) slower-than-expected global economy recovery; (iv) progress of tax policy reforms in Congress; (v) heightened climate change risks and other environmental vulnerabilities (e.g., El Niño and La Niña phenomenon); and (vi) development gaps and opportunities (e.g., priority expenditure areas).

In view of these developments, the following adjustments to the MTFF, which had been adopted by the DBCC via an Ad referendum dated July 19, 2024:

Table 4. Philippines: Targets under the MTFF

Targets under Senate Concurrent Resolution No. 3, s. 2022	Proposed Updated Targets (in percentage)
6.5 percent to 8.0 percent real GDP growth annually between 2023 to 2028	6.0 - 7.0% in 2024; 6.5 - 7.5% in 2025; 6.5 - 8.0% in 2026 to 2028
3.0 percent NG deficit-to-GDP ratio by 2028	3.7% by 2028
Less than 60.0 percent NG debt-to-GDP ratio by 2025	Less than 60.0% by 2028

Procurement Reforms

Pursuant to the NG's efforts to promote ease of doing business, improve procurement participation, and streamline government procurement, the DBM is currently pursuing the following reforms to further support the achievement of targets under the MTFF and its Medium-Term Fiscal Program:

- *Full implementation of the Modernized Philippine Government Electronic Procurement System (mPhilGEPS)*. The mPhilGEPS shall contribute to a modernized online procurement process which includes various features such as (i) centralized registration for government agencies, merchants, and civil society organizations/auditors; (ii) Virtual Store, which is a platform for online ordering of common-use supplies and equipment; (iii) eBidding; (iv) eMarketplace; and (v) eReverse Auction. Modernization is seen to improve user experience and upgrade the system's performance, stability, interoperability, and scalability.

- *Introduction of the eMarketplace under the mPhilGEPS*. This is intended to be an "online shopping" platform where agencies may directly procure supplies and equipment, within allowable limitations, from competent and reputable suppliers. This initiative aims to dispense with the tedious procurement process while retaining compliance with prescribed legal, technical, and financial requirements.

- *Amendments to the Government Procurement Reform Act (GPRA)*. To this end, the Government Procurement Policy Board (GPPB) conducted a comprehensive review of the provisions of the GPRA and its implementing rules and regulations (IRR), which eventually culminated in the passage of Republic Act No. 12009 or the New Government Procurement Act. The Act aims to modernize the government procurement process in promoting greater transparency, efficiency, and accountability using modern technologies and innovative solutions consistent with a fit-for-purpose approach in public procurement.

34. **Possible slowdown in project implementation in view of the 2025 Mid-Term National and Local Elections**

A slowdown in infrastructure disbursements and social welfare and housing dole-outs is expected during the first half of 2025, considering the prohibition against the release, disbursement, or expenditure of public funds forty-five (45) days before a regular election, subject to certain exceptions.

Under Section 261 (v) of the Omnibus Election Code, the following are excluded from the prohibition referred to above:

- Maintenance of existing and/or completed public works projects;
- Work undertaken by contract through public bidding held, or by negotiated contract awarded, before the forty-five (45) day period before election;
- Payment for the usual cost of preparation for working drawings, specifications, bills of materials, estimates, and other procedures preparatory to actual construction;
- Emergency work necessitated by the occurrence of a public calamity, but such work shall be limited to the restoration of the damaged facility;
- Ongoing public works projects commenced before the campaign period or similar projects under foreign agreements; and
- For social welfare services and housing-related spending, only salaries of personnel and for such other routine and normal expenses, or other expenses as the Commission on Elections may authorize after due notice and hearing.

The foregoing considered, these risks may be mitigated by the proper and timely conduct of Early Procurement Activities (EPAs), removing them from the ambit of the prohibitions. However, where circumstances are such that EPAs cannot be feasibly undertaken or when projects are delayed for other reasons, catch-up plans should be prepared during the election ban so that they may be implemented as soon as the ban is lifted.

Likewise, the change in incumbents in the Senate and the House of Representatives may affect the progress of pending bills on key budgeting and public financial management reforms. As such, proponents may prepare transition plans to account for the possible change in the rosters of both Houses and ensure that the bills and measures to be sponsored already reflect changes and refinements made during the 19th Congress.

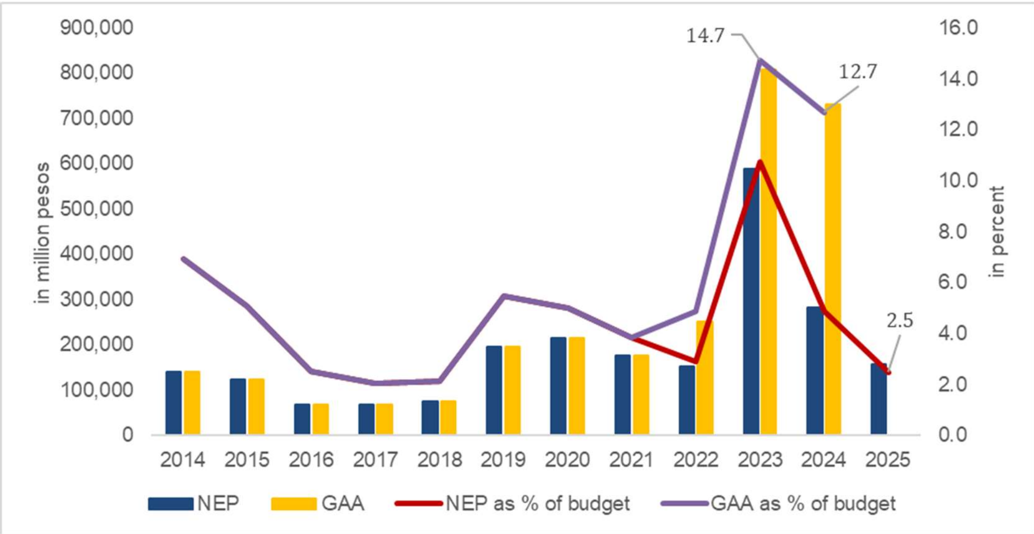
35. **Continued and substantial displacement of allocations for Foreign-Assisted Projects to Unprogrammed Appropriations**

Unprogrammed appropriations (UAs) are those that provide standby authority to incur additional agency obligations for priority programs or projects when any of the following conditions are met: (i) revenue collections exceed revenue targets; (ii) new revenues are collected; or (iii) approved loans for foreign-assisted projects are secured.[17]The release of amounts under this fund requires the submission of a Special Budget pursuant to Sec. 35, Chap. 5, Book VI of Executive Order No. 292, s. 1987 and the following: (i) for excess revenue collections, issuance of a certification that remitted collections to the Bureau of the Treasury (BTr) from a particular revenue source has exceeded the corresponding revenue collections target; or (ii) for new revenue collections, issuance of a certification that remitted collections identified were not part of, nor included in the original collection targets reflected.

In the years prior to the COVID-19 pandemic, the GAA levels for UAs remained unchanged from their National Expenditure Program (NEP) levels. It was only in 2022 and the years thereafter that GAA levels began to deviate from NEP levels, reaching as high as ₱807.2 billion in 2023 (37.2 percent higher than the NEP and 14.7 percent of the total budget) and ₱731.4 billion in 2024 (159.5 percent higher than the NEP and 12.7 percent of the total budget). Meanwhile, ₱158.7 billion was allocated for the purposes under the UAs in the FY 2025 NEP. This is lower than the previous NEP level by 43.7 percent or around ₱123.2 billion. It may be noted that the FY 2025 NEP figure as a share of the total budget is pegged at 2.5 percent and is much lower than in 2023 and 2024 at 10.7 percent and 4.9 percent, respectively. The bulk of the amount in the FY 2025 NEP will be provided for the Strengthening Assistance for Government Infrastructure and Social Programs (₱78.4 billion), Budgetary Support to GOCCs (₱26.3 billion), Support to Foreign-Assisted Projects (₱25.5 billion), and Revised AFP Modernization Program (₱25.0 billion).

[17] See General Appropriations Act (GAA) FY 2024, XLIII. Unprogrammed Appropriations, available at https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2024/VolumeI/UA.pdf (last accessed April 1, 2024).

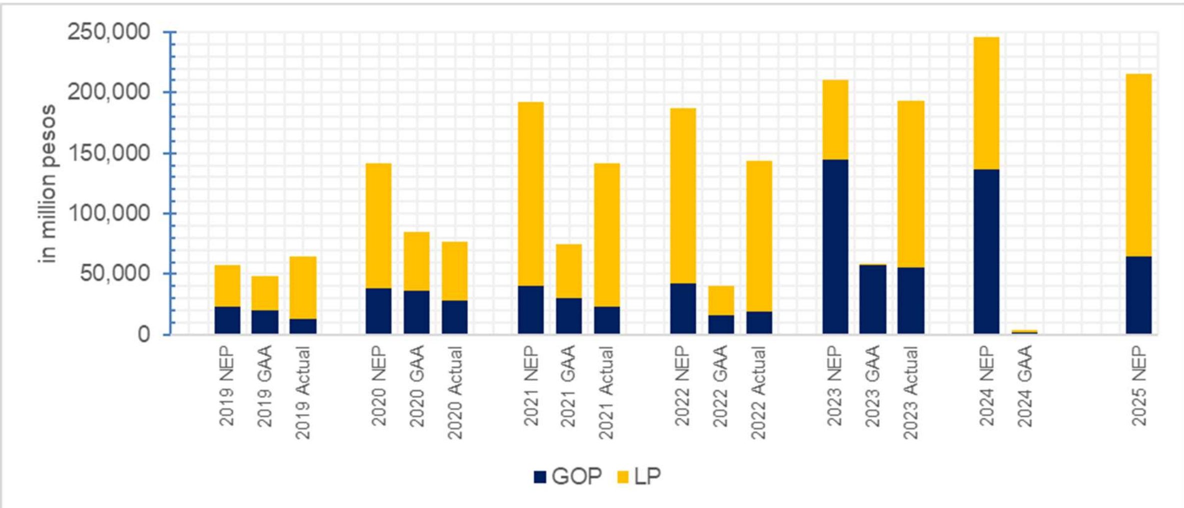
Figure 1. Philippines: Unprogrammed Appropriations - NEP vs. GAA Allocations



	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
NEP	139,904	123,056	67,500	67,500	75,340	197,136	216,303	176,316	151,639	588,162	281,908	158,665
% share in total budget	*6.9*	*5.1*	*2.5*	*2.0*	*2.1*	*5.5*	*5.0*	*3.8*	*2.9*	*10.7*	*4.9*	*2.5*
GAA	139,904	123,056	67,500	67,500	75,340	197,136	216,303	176,316	251,639	807,162	731,449	-
% share in total budget	*6.9*	*5.1*	*2.5*	*2.0*	*2.1*	*5.5*	*5.0*	*3.8*	*4.9*	*14.7*	*12.7*	

While generally, the release of funds and utilization of UAs should not adversely affect the fiscal deficit, some programs and projects in the UAs, particularly those lodged under the UA - Support to Foreign Assisted Projects (UA-SFAPs), have deficit implications. UA-SFAPs are distinct from other UA purposes in that they are non-deficit neutral, unlike other purposes which are supported by either excess income or new revenue sources. Thus, it is prudent practice to comprehensively account for these amounts in the programmed appropriations of the national budget to the farthest extent possible.

Figure 2. Philippines: Allocation for FAPs, 2019-2025



From Figure 2, the provision for FAPs in the FY 2022 and FY 2023 GAAs have been reduced by an average of 75 percent vis-à-vis its NEP levels. This trend continues in the FY 2024 GAA figure, wherein provision for FAPs was drastically reduced to only around 1.65 percent of the ₱246.1 billion allocation in the NEP. However, under the FY 2025 NEP, the provision for FAPs has significantly increased to ₱215.6 billion. This amount shall support 63 projects, with the majority (41 projects) slated for implementation by the DPWH. Nevertheless, in terms of amount, the DOTr received the largest share with ₱122.6 billion or 56.9 percent, which will be used to support two main railway projects: (i) North-South Commuter Railway System (₱63.9 billion); and (ii) Metro Manila Subway Project Phase I (₱39.4 billion).

Given the foregoing, the reduction in the provision for FAPs in the national budget will be offset by charging against the UA-SFAPs the loan proceeds (LP) components of FAPs with approved loan agreements. It is noted that in 2023, ₱344.1 billion was allocated under the FY 2023 for UA-SFAPs, of which ₱196.5 billion has been released as of December 12, 2023. In 2024, the GAA allocation for UA-SFAPs was increased by 51.9 percent to reach ₱178.8 billion, as compared to the NEP level of around ₱117.7 billion. While there is ₱51.6 billion provided under the UA of the FY 2024 GAA to fund the Government of the Philippines (GOP) counterpart component of FAPs, it remains to be seen whether the GAA will contain a similar provision for the purpose.

It is clear from the foregoing discussion that two possible factors may exacerbate the fiscal risks posed by current issues on appropriations for FAPs: (i) the continued displacement of FAPs from programmed to unprogrammed appropriations during budget legislation; and (ii) cash management complications, especially considering the 2-year validity for obligation and disbursement of MOOE and CO items in the UA. The attendance of any or both factors may lead to a slowdown in the implementation of FAPs and result in higher commitment fees and/or charges, as well as necessarily increase the NG's deficit by as much as ₱181.8 billion or 0.66 ppts to the deficit-to-GDP ratio, ceteris paribus. As to the implementation of FAPs, the lodging of the GOP counterpart under the UA poses a greater risk to the timely implementation of FAPs considering that these usually cover pre-implementation activities. With this, the agency will be forced to restructure their work plans and targets which will result in a prolonged implementation period.

In view thereof, the NG must employ greater fiscal consolidation by promoting more efficient tax administration and a proactive debt management strategy, all the while expanding the tax base through new revenue measures and implementing sound expenditure policies and reforms.

36. **Ballooning Pension Requirements of Military and Uniformed Personnel (MUP)**

Per the latest actuarial study by the Government Service Insurance System (GSIS), the unfunded liability of the pension scheme has increased to ₱14 trillion in 2023, highlighting the need to reform the MUP pension system and promote its future sustainability.[18] It must be reiterated that currently, the pension system is fully dependent on government funding, posing not only a substantial risk to the fiscal position of the NG but also to the pension system itself considering that any fiscal and/or economic shock affecting the NG would directly impact the pensions and retirement benefits doled out to MUPs. Against this backdrop, the MUP pension reform efforts endeavor to introduce (i) a mandatory contribution of active personnel based on their monthly base and longevity pay, and (ii) the removal of indexation for active personnel and new entrants.

[18] See Louise Maureen Simeon, Unfunded MUP liability rises to P14 trillion, Philstar Global, September 1, 2023, available at https://www.philstar.com/business/2023/09/01/2292841/unfunded-mup-liability-rises-p14-trillion (last accessed March 11, 2024).

Status: On September 25, 2023, the House of Representatives approved the third and final reading of the consolidated House Bill No. 8969, which provides for a pension system for MUP. Notably, the Bill also provides for a guaranteed 3 percent annual salary increase for MUP for the first ten (10) years from the time the proposed law takes effect. Senate Bill No. 2501 is currently pending on second reading at the Senate as of December 4, 2023.

Table 5. Philippines: Comparison of Salient Features of the MUP Pension Reform Bills

FEATURES	EXISTING SCHEME	HOUSE BILL NO. 8969	SENATE BILL NO. 2501
Age of Compulsory Retirement	Upon reaching the age of 56, or 30 years in active service, whichever comes later. For the Armed Forces of the Philippines (AFP), upon reaching the age of 57, or 30 years in active service, whichever comes later per R.A. No. 11939.	Age of 57 years old, or upon accumulation of 30 years of satisfactory active service, whichever comes later. MUP killed-in-action (KIA) or wounded-in-action (WIA) resulting in total permanent disability as duly certified by the appropriate medical certification process of the respective services, shall be deemed compulsorily retired for purposes of computing retirement benefits.	For the AFP, upon reaching the age of 57, or 30 years in active service, whichever comes later per R.A. No. 11939. For Uniformed Personnel, age of 57 years old, or upon accumulation of 30 years of satisfactory active service, whichever comes later. MUP KIA or WIA resulting in total permanent disability as duly certified by the appropriate medical certification process of the respective services shall be deemed compulsorily retired for purposes of computing retirement benefits.
Age of Optional Retirement	With at least 20 years in active service.	Retain existing scheme.	Retain existing scheme.
Retirement Benefits	May opt to receive the following: (a) Direct pension immediately after retirement; or (b) Receive a 36-month lump sum (retirement gratuity) upon retirement then receive pension after 3 years thereafter. Monthly pension: (Base Pay + Longevity	Retain existing scheme. However, the maximum pension rate is 90% of base pay and longevity pay for all future MUP retirees.	Retain existing scheme. However, the maximum pension rate is 90% of base pay and longevity pay for all future MUP retirees. For KIA or WIA, retirement pay shall be computed at the rate of 90% regardless of years in active service.

	Pay) * Length of Service * 2.5% Maximum of: 85% * (BP+LP) for AFP 90% * (BP+LP) for PNP, BFP, BJMP, PCG, BUCOR 75% * (BP+LP) for NAMRIA (Officers only)		
Pensionable Age (minimum age to receive the monthly pension)	No minimum pensionable age.	Retain existing scheme.	Retain existing scheme.
Rank after retirement	Retire one rank higher, i.e., computation of retirement benefits is based on one rank higher. For the AFP, the computation shall be based on the current rank upon retirement for new entrants.	Retire one rank higher, i.e., computation of retirement benefits is based on one rank higher. For new entrants, retirement pay shall be based on the last permanent grade held.	Retirement pay shall be based on the last permanent grade held.
Indexation of Pension	Automatic pension adjustment to the base pay of active personnel.	Retain existing scheme for current pensioners and active personnel. Adjustment in the pension and survivorship pension of new entrants may be provided not more than 1.5% of the retirement benefit.	Retain existing scheme for current pensioners. Adjustment in the pension and survivorship pension of active personnel and new entrants may be provided not less than 1.5% of the retirement benefit.
Cap on Salary Adjustments	No cap on salary adjustments of active MUP.	For the first 10 years, there shall be a fixed annual adjustment in the base pay of active MUP of 3%.	No cap on salary adjustments of active MUP.
Disability Pension	A monthly pension of varying rates, over and above retirement benefits, for any AFP member retired for disability incurred in the line of duty. On the other hand, a member of PNP, BFP, and	Retain existing scheme for disability other than total permanent disability. MUP with total permanent disability shall be compulsorily retired.	Provisions have been included to harmonize the total permanent disability benefits. However, no rates have been identified.

<table>
<tr><td></td><td>BJMP who is permanently disabled in the performance of duty shall be entitled to a one-year’s salary and a monthly pension equivalent to eighty percent (80%) of the last salary being received, in addition to other benefits.</td><td></td><td></td></tr>
<tr><td>Mandatory Contribution</td><td>None.</td><td>For new entrants, for every year, 9% for the employee share and 12% for the NG share.</td><td>Mandatory contributions computed on the base pay and longevity pay of active MUP:<table><tr><th>MUP</th><th>Emp. Share</th><th>NG Share</th></tr><tr><td>Military Personnel</td><td>7%</td><td>14%</td></tr><tr><td>Uniformed Personnel</td><td>9%</td><td>12%</td></tr></table></td></tr>
<tr><td>MUP Trust Fund</td><td>None.</td><td>Two (2) separate Trust Funds for the MUP shall be created for the budgetary support of separation and retirement benefits of the Military and Uniformed Services, including the payment of retirement pay, separation pay, and assistance to indigent pensioners.</td><td>Two (2) separate Trust Funds for the MUP shall be created for the budgetary support and payment separation, retirement, pension, survivorship, and other benefits granted under the New Act.</td></tr>
<tr><td>Administrator of Pension</td><td>Military and Uniformed Services</td><td>The GSIS is designated as the fund manager and benefits administrator of the MUP Trust Funds.</td><td>The GSIS is designated as the fund manager of the MUP Trust Funds.</td></tr>
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37. **Digitalization Efforts and Public Financial Management Reforms**

Concurrent with various digitalization initiatives aimed at enhancing spending efficiency, the government is presently engaged in legislative coordination efforts to institutionalize the Cash Budgeting System (CBS) and key public financial management (PFM) reforms, including the implementation of an Integrated Financial Management Information System (IFMIS),[19] as outlined in the Progressive Budgeting for Better and Modernized (PBBM) Governance Bill. It is noted that the PBBM bill was identified by the President as one of the priority legislative measures in his State-of-the-Nation-Address (SONA), and subsequently

[19] On June 1, 2023, the President signed the Executive Order No. 29, s. 2023 directing the full adoption of IFMIS in government agencies.

included under the Legislative-Executive Development Advisory Council (LEDAC) endorsed measures, and the Philippine Development Plan (PDP) 2023-2028 Legislative Agenda.

CBS, as stipulated in Executive Order (EO) No. 91, s. 2019, mandates that all appropriations shall remain available for obligation and execution only until the end of each fiscal year (or until the permissible transition period per the GAA). Payments for incurred obligations may be settled within the fiscal year or the three-month Extended Payment Period (EPP) following the expiration of appropriations, subject to any transition period stipulations.

Supported by the conduct of early procurement activities, the CBS ushers in a paradigm shift in the behavior and perspective of spending agencies regarding budget management by enjoining them to strategically plan proposed PAPs, ensure their readiness for implementation, and maximize the allowable period during its budget execution.

38. Bureaucratic Efficiency through the National Government Rightsizing Program

Consistent with the NG's pursuit of enhanced bureaucratic efficiency, the National Government Rightsizing Program (NGRP) is one of the key reforms pushed by the current administration to improve the government's institutional capacity through i) designing an organizational structure with an appropriate staffing mix; ii) focusing the performance of agencies to their vital/core functions; and iii) simplifying the systems and processes of agencies.

It is noted that the proposed NGRP will determine which among the around two (2) million authorized positions[20] in 187 government agencies and government-owned and -controlled corporations (GOCCs) may be streamlined through merging, restructuring, or abolition. With the proposed rightsizing, the government will be able to save a significant amount of the budget which may be used to fund priority projects.[21] It is emphasized that the NGRP is not equivalent to a mass layoff, rather it focuses on strengthening the entire government structure to help the bureaucracy to have an agile, efficient, responsive, and technology-driven workforce.[22]

Meanwhile, a study was recently conducted by the DBM which aims to provide a baseline analysis (from the perspective of the NG fiscal position) that:

- Assesses the overall feasibility of NGRP implementation by estimating the costs and benefits of the program; and
- Identifies possible and practical coverage of the rightsizing program.

Based on the result of the study, it was noted that the implementation of NGRP is a viable undertaking with high returns which are estimated at ₱0.7 to 2.1 billion per year. The said benefits are expected to materialize starting the fourth year of implementation of the reform. Moreover, considering other socio-economic factors relevant to NGRP, the present value shows that its net benefits outweigh the costs.[23] The study was presented during a Stakeholders' Forum on NGRP on February 8, 2024. The said event provided a venue for National Government Agencies (NGAs) to learn more about NGRP and clarify their

[20] Excludes teaching and teaching-related positions, medical and allied medical positions or those in the health sector, and the military as well as other uniformed personnel.

[21] Department of Budget and Management Press Releases (August 15, 2022). DBM supports rightsizing of government agencies and personnel. https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2286-dbm-supports-rightsizing-of-government-agencies-and- personnel

[22] Department of Budget and Management Press Releases (August 16, 2022). Budget Chief highlights efficient and transparent governance, fiscal discipline in post-SONA economic briefing. https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2300-budget-chief-highlights-efficient-and-transparent-govern ance-fiscal-discipline-in-post-sona-economic-briefing

[23] Using macroeconomic data and a panel of government agency data on PS, MOOE, CO budget allocations, and the staffing summary.

queries and concerns. This forum was co-led by the DBM with the Presidential Legislative Liaison Office (PLLO).

Status: Twenty-four (24) bills have been filed on the NGRP as of December 31, 2023. These comprise nineteen (19) bills filed in the House of Representatives (HOR) and five (5) in the Senate. In the HOR, HB No. 7240, which consolidated various HBs filed on the NGRP, was approved on the third and final reading on March 14, 2023. Meanwhile, in the Senate, the DBM has been conducting meetings/briefings with the Office of Senator Joel Villanueva regarding the NGRP. Relatedly, on December 5, 2023, Senator Villanueva sponsored SB No. 2502, which is the Administration's version of the bill on the NGRP.

For this year, the following activities are slated to support the NGRP campaign:

- Implementation of ADB Small-Scale Technical Assistance on the National Government Governance Reform Program;
- Conduct briefings, advocacy-related activities, and stakeholder consultations on the NGRP; and
- Legislative briefings and deliberations on the NGRP.

39. **Capacity and Transition Issues / Devolution Efforts Post-Mandanas**

It may be recalled that the Supreme Court (SC) in *Mandanas v. Ochoa* [G.R. No. 199802 (2018)] held that the just share of LGUs shall be based on all national taxes, subject to allowable exclusions as provided by law. This effectively expanded the volume of resources available to LGUs for the performance of their functions and rendition of services, which shall be slated for full devolution to LGUs to support their decentralization and to allow the NG to take on more strategic and steering functions to address persistent development issues in the national scale. To facilitate the transition, EO No. 138, s. 2021 was issued on June 1, 2021.

However, due to various issues and concerns on the full devolution initiative, the President directed that the full devolution of functions and services to LGUs be further studied based on their respective absorptive capacities. The National Economic Development Authority (NEDA), and the Department of the Interior and Local Government (DILG) in partnership with the Union of Local Authorities of the Philippines (ULAP), were tasked under separate directives to undertake studies on the appropriate unbundling and re-assignment of functions and services for devolution and to use the inputs therefrom to conduct a sensitivity analysis to determine the proper timeline for the transition. Both studies by the DILG/ULAP and NEDA have since concluded as of March 2024. The results contain recommendations on the necessary policy changes concerning the devolution efforts, aimed at guiding both national government agencies (NGAs) and LGUs. These recommendations will serve as the basis for a list of capacity development interventions that the NG will pursue to help LGUs assume and perform devolved functions. As of July 30, 2024, preparations to update existing policies on full devolution, based on the based on studies conducted by NEDA and DILG/ULAP are still ongoing.

It is noted that despite the directive holding in abeyance the implementation of EO No. 138, s. 2021 pending the completion and resolution of the issues referred to, the President has nevertheless instructed the continual provision of essential NG support to LGUs, which include, but are not limited to, the following interventions:

- Continued performance by the Committee on Devolution (ComDev) of its functions, considering the need to initiate capacity-building programs to LGUs and define those that should be devolved to the LGUs based on their absorptive capacities;
- Provision of the Growth Equity Fund to poor, disadvantaged, and lagging LGUs to aid them in

implementing devolved functions and services;

- Provision of capacity development by the NG to the LGUs, to ensure efficient utilization of government resources (e.g., the Public Financial Management Competency Program for LGUs, and the DILG Local Government Sector Personnel Capacity Development Program);
- Strengthening of planning and budgeting linkages, given the need to align the priorities of the NG and the LGUs; and
- Performance by the NG of oversight and steering functions over capacity development efforts of LGUs.

40. **Inflationary Pressures / Social Subsidies**

To counteract the adverse impact of inflation on the purchasing power of vulnerable sectors, a total of ₱39.7 billion in the FY 2024 GAA and ₱11.6 billion in the FY 2025 NEP was allocated for the following inflation-related subsidy programs under the DOTr, DA, and the DSWD, as follows:

Table 6. Philippines: Inflation-related Subsidy Programs under the FY 2024 GAA

Program	Amount (in million ₱)		Purpose	Remarks
	2024 GAA	2025 NEP		
Fuel Subsidy Program (DOTr-LTFRB, but lodged under DOTr-OSEC)	2,500.0	2,500.0	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, subject to the issuance by the DOE of a certification that the actual average price, for one (1) calendar month, of Dubai crude oil based on Mean of Platts Singapore per barrel has reached eighty dollars (US$80).	In 2024, the fuel subsidy program will stand to benefit 288,108 beneficiaries. The subsidy rate will typically vary depending on the type of service offered. Likewise, the amount of subsidy to be given per beneficiary may change and vary depending on on the fuel price for the covered period.

Fuel Assistance to Farmers (DA-OSEC)	510.4	50.0	Fuel assistance to farmers, inclusive of the operating expenses incurred in the distribution, subject to the issuance by the DOE of a certification that the average actual price, for one (1) calendar month of Dubai crude oil based on Mean of Platts Singapore per barrel has reached eighty dollars (US$80). A qualified farmer beneficiary must own or rent agricultural machinery and must be listed in the Registry System for the Basic Sectors in Agriculture (RSBSA).	In 2024, this program will cover around 159,617 beneficiaries, with each receiving fuel assistance amounting to ₱3,000. In 2025, it is noted that the proposed allocation was reduced due to the DA's reprioritization of programs.
Fuel Assistance to Fisherfolks (DA-BFAR)	469.6	50.0	Fuel assistance to fisherfolks, inclusive of the operating expenses incurred in the distribution, subject to the issuance by the DOE of a certification that the actual average price, for one (1) calendar month of Dubai crude oil based on Mean of Platts Singapore per barrel has reached eighty dollars (US$80). A qualified fisherfolk beneficiary must own and operate a motorized fishing vessel individually or through a fisherfolk organization, cooperative, or association, and must be listed in the RSBSA. Further, their fishing vessels are duly registered in the integrated boat beneficiary system or the BFAR's Boat Registration or LGU boat registry system.	In 2024, this program will cover around 146,828 beneficiaries, with each receiving fuel assistance amounting to ₱3,000 In 2025, it is noted that the proposed allocation was reduced due to the DA's reprioritization of programs.

Fertilizer Discount Voucher Program (DA-OSEC)	9,561.4	9,048.4	The program shall distribute fertilizer discount vouchers under the Production Support Services of the National Rice Program for the provision of fertilizer assistance to complement the DA Inbred Certified Seed Program and the DA Hybrid Seed Program. The fertilizer assistance program shall be implemented within the major rice-producing provinces and promote balanced fertilization to increase rice productivity.	In 2024, the program will provide ₱3.4 billion and around ₱6.2 billion of fertilizer assistance to complement the DA Inbred Certified Seed Program and DA Hybrid Seed Program, respectively. It shall target to help around 1.0 million farmers for the wet season and 1.2 million farmers for the dry season.
Ayuda sa Kapos Ang Kita Program (AKAP) (DSWD)	26,700.0	-	The program shall provide financial assistance to minimum wage earners falling under the category of low-income who were severely affected by rising inflation. The implementation of this provision shall be subject to guidelines to be issued by the DSWD and the existing budgeting, accounting, and auditing rules and regulations.	AKAP is a Congress Introduced Change / Adjustment (CICA). Under AKAP, around 5.073 million targeted beneficiaries shall receive financial assistance either in the form of (i) outright cash if the amount of assistance ranges from ₱1,000 to ₱10,000, subject to the assessment of the DSWD Social Worker, or (ii) a Guarantee Letter approved by the Department Secretary or his duly authorized representative if the assistance exceeds ₱10,000.[24]

On the effect of Emergency Dole-out of Targeted Cash Transfers

In the 2024 GAA, it is observed that there are no explicit allocations for the Targeted Cash Transfer (TCT) Program within the Department of Social Welfare and Development (DSWD) Budget or its Special Provisions. To recall, the TCT Program aims to provide targeted relief to the poorest 50 percent of the population, given escalating fuel and commodity prices. This absence of allocations for the program is likewise the case for the 2022 and 2023 GAAs.

[24] DSWD Memorandum Circular No. 4. S.2024 (Guidelines on the Implementation of the Ayuda sa Kapos ang Kita Program).

However, it's worth noting that in both 2022 and 2023, the government was able to disburse around ₱27.1 billion (₱19.4 billion in 2022 and ₱7.7[25] of the DSWD, funded through Unprogrammed Appropriations, specifically under Support for Infrastructure Projects and Social Programs (UA-SIPSP), subject to special provisions for release.

Should the TCT Program be reinstated this year, likely, funding will likely again be drawn from the UA under Special Provision (SP) No. 2, which authorizes the utilization of funds allocated for Strengthening Assistance for Government Infrastructure and Social Programs (SAGISP) to support social programs, subject to specified release conditions under SP No. 1. Although it is conceded that the nature of release requirements for funds under the UA-SAGISP would not entail an additional deficit impact, it may nevertheless erode the capacity of the NG to fund other UA programs in the pipeline whose second-round benefits may outpace the immediate relief provided by the targeted subsidy.

Congress-Induced Changes/Adjustments (CICAs) and the National Budget

To reiterate, the AKAP is a CICA with a substantially large allocation in the GAA vis-à-vis other inflation-related subsidies, viz. ₱26.7 billion out of the total ₱39.7 billion (67.3 percent share). However, unlike other subsidy programs, which have well-defined release or eligibility conditions outlined in the SP of the implementing agency, the AKAP provides only general directions as to the nature and purpose of the program and its intended beneficiaries.

While this does not discount the fact that the DSWD may be able to issue the pertinent rules and regulations of the program after the passage of the national budget or the fact that it is well within the mandate of Congress to evaluate and re-configure the budget as long as it is done within the bounds and limits provided under the 1987 Constitution, the precedent on how it was established detracts from the spirit of the CBS and sound public financial management practices that programs should be implementation-ready come budget execution. Furthermore, it may fail to account for the capacity of the DSWD to effectively utilize the budget therefore, especially considering that without bolstering its staff complement, it may create process inefficiencies and affect not only the implementation of the AKAP but also other programs that the DSWD is already implementing.

Risk Mitigation Measures and Long-term Solutions

The NG recognizes that inflation-related subsidies play a significant role in managing the pervasive impact of inflation on vulnerable sectors such as the impoverished sector, the agriculture and fisheries sectors, and the public transport sector. Yet it is equally important that the NG pursue and advocate for long-term solutions that make these sectors less vulnerable to inflation, such as decreasing dependence on nonrenewable energy sources in favor of renewable energy, increasing labor productivity through education, capacity development, and mechanization, and strengthening linkages between the Executive and Legislative branches throughout the various stages of the budget cycle while respecting the healthy separation of powers between the co-equal branches of government.

In addition, risks associated with CICAs may be mitigated, if not eliminated, through timely inquiries and consultations by Congress with implementing and oversight agencies primarily aimed at identifying initiatives that have already been studied but have yet to be provided a line item in the budget of the

[25] The overarching objective of the Protective Services for Individuals, Families in Difficult Circumstances (PSIFDC) Program within the DSWD is to extend financial support to individuals, families, and communities grappling with challenging circumstances. This assistance encompasses various forms such as food aid, transportation, medical and burial assistance, aid to students, as well as cash or food-for-work initiatives, rice subsidies, and other forms of aid tailored to individuals, sectors, or communities facing acute hardships, vulnerability, or calamities.

concerned implementing agency. By performing this routinary “due diligence,” Congress may be given a better insight into the issues that the implementing agency is currently looking into. Likewise, Congress may also provide inputs as to what interventions the implementing agency may also undertake, providing a reasonable opportunity for the agency to lay the policy groundwork and ensure that it is shovel-ready come budget execution. This strategy may lead to better cost efficiency and prudent spending, which is consistent with the NG’s pursuit of fiscal consolidation.

41. Maharlika Investment Fund

Signed on July 18, 2023, R.A. No. 11954, or the Maharlika Investment Fund (MIF) Act of 2023 establishes the Philippines’ first sovereign wealth fund (SWF) to further support the delivery of priority programs and the attainment of the Marcos, Jr. Administration’s development agenda as enshrined in the MTFF, the 8-point Socioeconomic Agenda, and the PDP 2023-2028. The Fund shall be invested in various assets, such as foreign currencies, fixed-income instruments, domestic and foreign corporate bonds, joint ventures, mergers and acquisitions, real estate and infrastructure projects, and other investments with sustainable and development impact.

It may be recalled in the previous iteration of this report that as much as the ends sought to be achieved by the MIF are broadly consistent with the targets of the administration in various frameworks and agendas, risks inherent to SWFs, in general, should be the primary concern for its incumbent Board. Considering that capitalization requirements are financed by units in the public sector, which are themselves supported to some degree by the NG, any shock that affects the asset portfolio of the MIF may very well redound to the detriment of the fiscal position.

It is noted that the MIF Act of 2023 provides for various safeguards to ensure the integrity and credibility of the MIF, such as adherence to international financial reporting standards and principles, a robust audit mechanism, congressional oversight, and compliance with the Santiago Principles for good governance, accountability, transparency, and prudent investment practices. Likewise, the Act provides for penal provisions that ensure that its officers and the parties transacting with the Maharlika Investment Corporation (MIC) are held accountable for any violations and offenses committed under the Act.

Status: The Bureau of the Treasury (BTr) has issued the implementing rules and regulations (IRR) for the MIF Act of 2023 on August 28, 2023, and shall become effective fifteen (15) days after its complete publication in the Official Gazette or a newspaper of general circulation. The IRR was thereafter revised and published on November 11, 2023, and it is seen to further ensure the independence of the Board of the MIC and provide more flexibility to create oversight and risk management bodies under effective fund management standards.[26]

[26] See Department of Finance, Statement of Support for the Revised Implementing Rules and Regulations of the Maharlika Investment Fund Act, November 13, 2023, available athttps://www.dof.gov.ph/statement-of-support-for-the-revised-implementing-rules-and-regulations-of-the-maharlika-investment-fund-actnovember-13-2023

Revenue Performance

42. **The NG posted a deficit of ₱1.51 trillion, or 6.2 percent of GDP, in 2023. The full-year deficit level is lower than 2022's 7.3 percent.**

43. Total revenue collection for the fiscal year (FY) 2023 grew by 7.9 percent YoY, registering at ₱3.82 trillion. The bulk of the revenue collection or almost 90 percent was from tax collection, while around 10 percent was from non-tax collection.

44. Tax revenues amounted to ₱3.43 trillion, 6.5 percent or ₱208.98 billion higher than the 2022 level of ₱3.22 trillion. As a percentage of GDP, tax revenues were at 14.1 percent, 0.5 percentage points lower than 14.6 percent in 2022. The single-digit growth in tax collection was mainly due to FY 2023 collections coming from a higher base in 2022 when the economy fully reopened after most health protocols were lifted, which allowed businesses and public transport, including shopping malls, movie theaters, and restaurants, to operate at full capacity. Consumption slowed down in 2023 as "revenge spending" waned, affecting the Bureau of Internal Revenue's (BIR) tax collections.

    Of the total tax revenues, BIR collection accounted for 73.4 percent. This is followed by the Bureau of Customs (BOC) with 25.8 percent, while the remaining 0.8 percent was from tax collections from other offices.

45. BIR collections for 2023 amounted to ₱2.52 trillion, higher by 7.8 percent compared to the 2022 collection of ₱2.34 trillion. However, the growth in BIR collection is slower than in 2022 growth of 12.4 percent due to lower collections from tobacco excise taxes, personal income tax (PIT) from withholding on wages, and value-added tax (VAT). BIR collections were also affected by the shift to e-commerce transactions, which currently have not been fully captured.

    A negative 6.2 percent YoY growth in excise tax due to lower collections on tobacco as a result of the possible incidence of illicit trade, and as smokers are likely starting to shift from conventional cigarettes to e-cigarettes. On the other hand, collection from withholding of wages also posted a negative 1.1 percent growth in 2023 with the implementation of the second and final PIT rate reduction as mandated under the Tax Reform for Acceleration and Inclusion (TRAIN) Law. Meanwhile, VAT collection registered a negative 0.2 percent growth with the shift from monthly to quarterly filing and payment of VAT starting January 2023. As a result, the NG only collect 10 months' worth of VAT in 2023. The change in tax filing and return schedule is mandated under the TRAIN Law.

46. Meanwhile, BOC collections reached ₱883.21 billion, posting a revenue surplus of ₱20.79 billion or 2.4 percent more than its collection in 2022. BOC's strong performance may be attributed to the higher exchange rate YoY, which grew by 2.1 percent from ₱54.5 in 2022 to ₱55.6 in 2023, its intensified anti-smuggling measures, and digitalization projects for trade facilitation. Also contributing to the increased collection of BOC are revenues collected from Prior Disclosure Program applications, penalties and charges from audit findings, and proceeds from public auctions.[27]

    Like BIR, BOC collection is lower compared to the double-digit growth rate of 34 percent in FY 2022. This was caused by a negative 4.9 percent growth in imports and a lower Dubai crude oil price of US$82.02 per barrel, or 15.5 percent lower than the 2022 price of US$97.10 per barrel.

[27] Bureau of Customs. (2024). BOC Annual Report 2023. https://customs.gov.ph/wp-content/uploads/2024/03/BOC-CY-2023-Annual-Report.pdf

47. Tax collections from other offices were ₱29.09 billion, 30.9 percent higher than the 2022 collection of ₱22.22 billion. The double-digit growth is due to the higher shares of the Commission on Higher Education (CHED) and the National Commission for Culture and Arts (NCAA) from travel tax collections and immigration tax with growth rates of 168.9 percent and 83.3 percent, respectively. Collections on fire code tax and motor vehicle road user's tax also grew by 67.1 percent and 20.6 percent, respectively.

48. Non-tax collections, excluding privatization and grants, reached ₱393.30 billion in 2023 or ₱70.86 billion higher than in 2022. The increase was due to growth collections of the BTr and fees and charges that grew by 47.1 percent and 21.4 percent, respectively. The BTr's robust collection was largely driven by higher remittances of dividends from GOCCs, income from investments, and interest on NG deposits, as well as NG share in PAGCOR profit.[28]

    Total proceeds from privatization and grants, on the other hand, amounted to ₱1.51 billion, 45 percent lower than the 2022 level of ₱2.75 billion.

Outlook for 2024-2028

49. The Philippine economy grew by 5.6 percent in 2023. The country's economic performance is the fastest-growing in Southeast Asia and one of the best-performing in Asia. Domestic demand was propped up by strong growth in capital formation and higher household spending but was offset by the contraction in government expenditures. The DBCC and most multilateral organizations are optimistic about 2024 as they expect the country to continue its robust growth amid foreseeable challenges in the economic and financial landscape. With a stronger El Niño phenomenon and geopolitical and trade tensions, the DBCC assumes a growth rate of 6.0 to 7.0 percent in 2024. This growth is driven by strong private consumption, supported by within-target-range inflation, lower oil prices, increased public spending, greater investments due to sound macroeconomic fundamentals, investment-grade credit rating, implementation of structural reforms, and increased demand for Philippine exports. Meanwhile, the 6.5 to 7.5 percent growth in 2025 and 6.5 to 8.0 percent growth assumption was maintained for 2026 to 2028. The alignment of policies between fiscal and monetary authorities, such as proactive monitoring, monetary tightening, closer coordination of all public sector entities[29] in carrying out programs and projects[30], and easing the cost of doing business can aid the country towards a better growth performance. The DBCC also projects inflation to be at 3.0 to 4.0 percent in 2024 and return to the target range of 2.0 to 4.0 percent from 2025 to 2028. Furthermore, the DOF is pushing for a deliberate implementation of inflation-mitigating measures to keep the prices of goods and services stable.

50. Revenue projections in the medium term are expected to reach ₱4.27 trillion in 2024 or 16.1 percent of GDP, ₱4.64 trillion in 2025, and will reach ₱5.25 trillion at the end of the term of the President in 2028.

51. Tax revenues are expected to reach ₱3.82 trillion or 14.4 percent of GDP in 2024, ₱4.33 trillion or 15.1 percent of GDP in 2025, and will reach ₱6.00 trillion or 16.3 percent of GDP at the end of the term of the President in 2028.

52. Some of the possible risks to the 2024 and 2025 revenue outlook are the following:

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[28] Bureau of the Treasury. (2024). Full year 2023 Revenue and Disbursement meet program levels. https://www.treasury.gov.ph/?p=62469.

[29] National government, local government units (LGUs), the corporate sector, and government financial institutions

[30] Consistent with the Philippine Development Plan 2023-2028.

a. Acute and protracted global economic slowdown.
   i. Due to the resurgence of similar or more virulent variants of COVID-19 or any extraordinary phenomenon that can alter political, environmental, and economic elements.

b. Non-passage and delayed implementation of priority legislative measures[31]:
   i. VAT on Digital Service Providers[32];
   ii. Rationalization of Mining Fiscal Regime;
   iii. Package 4 of the Comprehensive Tax Reform Package previously known as the Passive Income and Financial Intermediary Taxation Act (PIFITA), including the lifting of excise tax exemption of pick-up cars;
   iv. Motor Vehicle User's Charge; and
   v. Excise Tax on Single-use Plastics

c. Stronger than expected El Niño and its prolonged impact, the onset of La Niña in the latter half of 2024, and extreme natural disasters[33] can contribute to high food inflation in the country due to damage to agriculture and fisheries.

d. Escalating geopolitical tensions due to the ongoing conflict between Israel-Hamas and pro-Hamas supporters in the Middle East, and the Russia-Ukraine war have led to disruptions in global trade, elevated prices of commodities, and increased price volatility, which threatens to further exacerbate domestic inflation.

   These circumstances are forcing the NG to implement policies that can bring short-term benefits at the expense of long-term sustainability. Such policies include trade protectionism, increased government spending, the enactment of tax breaks, adjustments in fares, wages and salaries, and service utility fees that are above expectations. All these short-term policies can disrupt global trade flows, increase market volatility, and hinder long-term growth.

e. The limited absorptive capacity of implementing agencies and LGUs poses a significant challenge. During a fiscal crisis, tighter controls may lead to sparse and unpredictable releases of funds, causing delays in the execution of crucial projects. Additionally, agencies often contend with structural issues in procurement, where delays in the delivery of goods and services may push the implementation of programs and projects into the following year.

f. As the country prepares for the midterm elections in 2025, revenue-eroding measures, such as tax exemptions for certain sectors and products, are more likely to be proposed.

g. Passage of revenue-eroding measures and bills with fiscal implications that do not have new revenue sources.

h. Possible spread of other highly infectious livestock diseases such as African swine fever (ASF)[34], avian influenza (AI), antimicrobial resistance (AMR), and Q fever. These diseases are some of the most prevalent livestock health threats in the country. Recent outbreaks of ASF and AI have disrupted food supply and increased production costs for smallholder communities dependent on livestock for food and income security.

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[31] These measures are expected to be implemented starting FY 2025.
[32] Republic Act No. 12023 was signed into law on October 2, 2024.
[33] Typhoons and floods, volcanic eruptions, and earthquakes
[34] The Department of Agriculture (DA) confirmed the first ASF outbreak in July 2019 and since then, outbreaks have occurred in 72 out of the country's 82 provinces as of year-end 2023.

Table 7. Philippines: Medium-Term Revenue Program, 2024-2028
(in billion pesos)

Particulars	2023 Actual	2024 Emerging	2025 Program	2026 Program	2027 Program	2028 Program
Total revenues	**3,824.11**	**4,269.92**	**4,644.41**	**5,063.24**	**5,627.53**	**6,249.56**
% of GDP	*15.7*	*16.1*	*16.2*	*16.2*	*16.6*	*17.0*
Tax revenues	**3,429.29**	**3,820.31**	**4,332.60**	**4,838.73**	**5,385.66**	**5,991.69**
% of GDP	*14.1*	*14.4*	*15.1*	*15.5*	*15.9*	*16.3*
BIR	2,516.99	2,848.94	3,232.48	3,606.52	4,013.11	4,463.06
BOC	883.21	939.69	1,064.03	1,184.77	1,321.05	1,472.76
Other offices	29.09	31.68	36.09	47.44	51.49	55.85
Non-tax revenues	**394.81**	**449.61**	**311.81**	**224.50**	**241.87**	**257.89**
BTr	227.64	187.01	93.84	93.45	95.17	94.25
Other non-tax	167.18	262.21	217.97	131.05	146.70	163.64
Nominal GDP	***24,289.43***	***26,495.63***	***28,749.82***	***31,230.93***	***33,926.16***	***36,853.98***

Notes: a) Totals may not add up due to rounding. b) Approved levels and ratios based on the July 19, 2024 DBCC Ad Referendum.
Sources: Department of Finance-Fiscal Policy and Planning Office (DOF-FPPO), Philippines Statistics Authority (PSA), and DBCC.

Table 8. Philippines: Medium-Term Revenue Program, 2024-2028
(growth rates)

Particulars	2024 Emerging	2025 Program	2026 Program	2027 Program	2028 Program
Total revenues	**11.7**	**8.8**	**9.0**	**11.1**	**11.1**
Tax revenues	**11.4**	**13.4**	**11.7**	**11.3**	**11.3**
BIR	13.2	13.5	11.6	11.3	11.2
BOC	6.4	13.2	11.3	11.5	11.5
Other offices	8.9	13.9	31.4	8.5	8.5
Non-tax revenues	**13.9**	**-30.6**	**-28.0**	**7.7**	**6.6**
BTr	-17.8	-49.8	-0.4	1.8	-1.0
Other non-tax	57.1	-17.0	-39.9	11.9	11.5

Notes: a) Totals may not add up due to rounding. b) Approved levels during the 188th DBCC Meeting on June 7, 2024.
Sources: DOF-FPPO, PSA, and DBCC.

Tax Administration and Policy Reforms

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

The measures under the MTFF will continue to improve tax administration, enhance the fairness and efficiency of the tax system, and promote environmental sustainability to address climate change.

a. The Ease of Paying Taxes (EOPT) was signed into law on January 7, 2024, and all revenue regulations have already been issued and implemented. With the implementation of the EOPT Law, we expect higher compliance from taxpayers.

   i. Tax return filing and payment were simplified with online channels and authorized agent banks (AABs).

   ii. Taxpayers can now file and pay taxes through the BIR portal and the nearest banks.

iii. Tax payments can also be made through certain e-wallets, such as Maya, and online payment portals, namely Landbank Link.BizPortal and MyEG.

b. Rigorous tax administration reforms will continue to boost BIR and BOC revenues. Aggressive implementation of tax administration and governance reforms will result in sustained growth in revenue collection, enhanced transparency, and elimination of tax evasion and smuggling. These reforms will also ensure that tax compliance is easy, efficient, and accessible.

   i. **BIR** is ramping up its Digital Transformation (DX) Program to transform the Bureau into a data-driven organization by utilizing reliable, scalable, and robust digital technologies that elevate taxpayer experience. In addition, the bureau's digitalization also focuses on improving its collection efficiency to capture e-commerce transactions.

   ii. On the other hand, **BOC** has digitalized 161 out of 166 customs processes as of December 2023. The One-Stop Electronic Travel Declaration System (E-Travel System), launched on November 21, 2023, in collaboration with the Department of Information and Communications Technology (DICT), allows travelers and crew members to declare dutiable goods prior to their arrival. The Overstaying Cargo Tracking System provides data on disposition activities, such as auction, condemnation, or donation of all overstaying containers in all ports. The BOC also introduced the National Customs Intelligence System (NCIS), a website that gathers intelligence data from various sources to enable informed decision-making analysis and more responsive policies. Other initiatives in the pipeline are the BOC e-Pay Portal System, the e-Auction System, and the Automated Export Declaration System (AEDS).

   iii. The DOF is also working with the Office of Special Assistant to the President for Investment and Economic Affairs (SAPIEA) to implement an integrated system for pre-border verification and invoicing to reduce smuggling and misdeclarations.

c. In addition, we will continue to push for the passage of the priority tax reforms, to better respond to the current fiscal requirements while also considering the high inflation environment. These measures will also allow the tax system to catch up in the digital economy and help accelerate recovery.

   i. **Package 4 (Passive Income, Financial Intermediaries, Pick-ups Taxation plus Tax Administration or PIFITA).** Redesigns the financial sector taxation to be simpler, fairer, more efficient, and regionally more competitive. The measure will make general tax compliance easier and taxation equitable to ensure progressivity, boost the tax effort, and increase tax trust. P4 was **refined** to ensure that the bill will be at least revenue neutral.

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

   ii. **Imposition of VAT on non-resident digital service providers (DSPs)** Clarify the imposition of VAT on the sale of digital goods and services of non-resident DSPs to ensure an equal playing field between local and foreign DSPs while expanding the VAT base.

iii. **Excise tax on single-use plastics (SUPs).** Imposition of ₱100 excise tax per kg of SUPs with a four percent indexation rate starting in 2026 and every year thereafter. The incremental revenues will be earmarked for the solid waste management programs of municipalities**.**

iv. **Rationalization of the Mining Fiscal Regime.** The measure aims to promote mining investment by simplifying the mining fiscal regime. It proposes a royalty tax outside mineral reservations, an introduction of a windfall profit tax mechanism, and provisions on ring-fencing, thin capitalization rule, transparency, and accountability**.**

v. **Motor Vehicle User's Charge (MVUC).** The proposal was refined to ensure that the bill would not be inflationary. The rates were simplified from 23 rates to a two-tier structure based on gross vehicle weight. In addition, a) four percent indexation every three years, b) increase the responsiveness of the MVUC fund by earmarking revenues for road sector projects and programs of the national government.

Box 1. Facilitating the adoption of Digital Collections

To facilitate the digital transformation of the public sector and improve the efficiency, security, and convenience of transactions, President Duterte issued Executive Order (EO) No. 170, s. 2022, titled "Adoption of Digital Payments for Government Disbursements and Collections" on May 12, 2022. Subsequently, the Implementing Rules and Regulations (IRR) were jointly signed by the Secretaries of Finance and Budget and Management on October 26, 2022.

The EO requires all agencies under the executive branch, including Government-Owned and Controlled Corporations (GOCCs), State Universities and Colleges (SUCs), and Department of Foreign Affairs (DFA) Foreign Service Posts (FSPs) to implement digital payment solutions. Additionally, the EO aims to create a framework for LGUs to adopt digital payment solutions.

One of the primary features of the EO and its IRR is the establishment of a Technical Working Group (TWG) and an advisory committee to support the TWG. The TWG is chaired by the Bureau of the Treasury (BTr) and includes the Department of Finance (DOF), Department of Budget and Management (DBM), Bureau of Internal Revenue (BIR), and Government Procurement Policy Board - Technical Support Office (GPPB-TSO). The advisory committee includes the Commission on Audit (COA), the Department of Information and Communications Technology (DICT), the Department of the Interior and Local Government (DILG), and the Philippine Payments Management Inc. (PPMI), with the Bangko Sentral ng Pilipinas (BSP) serving as a resource institution.

Following the national government's commitment to modernizing the public sector through EO 170 and the E-Governance Act of 2022, the BTr is actively overseeing the digital transactions of government agencies to ensure the efficient delivery of public services.

For the first quarter of 2024, 87 percent of the BIR and non-tax revenues were collected electronically. During the same period, the percentage of electronic collections for tax and non-tax revenues of the Bureau of Customs (BOC) has remained constant at 97 percent over the last two years and for Q1 2024. Electronic collections for non-tax revenues of other National Government Agencies (NGAs) increased to 20.48 percent in Q1 2024 from 17.5 percent in the previous year.

Presently, the Electronic Collection System (ECS) is being implemented by 116 NGAs, accounting for 62 percent, while 70 other NGAs, comprising 38 percent, have yet to adopt the system.

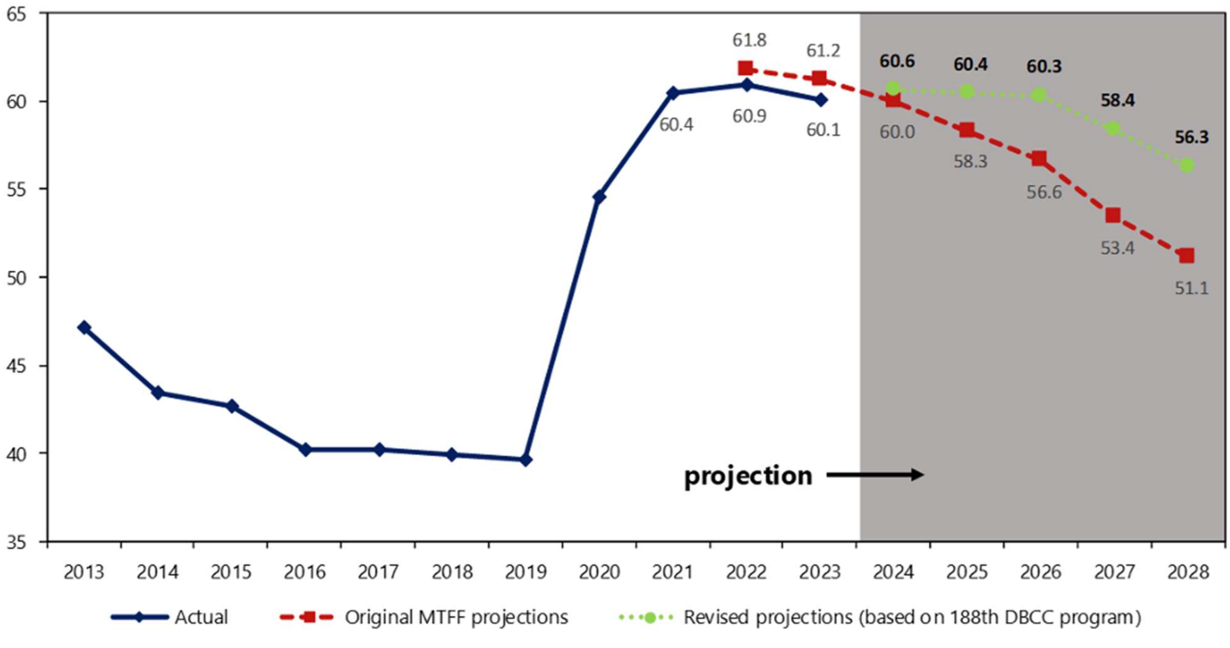
As of Q1 2024, NGAs with electronic collections accounted for 97.38 percent of all non-tax revenue collections. Notably, only 21.69 percent of the collections from these entities are executed through electronic/online channels, with the majority being transacted over the counter.

PUBLIC DEBT

54. **The NG secured its gross financing requirements with little difficulty amid robust investor reception of its domestic and external bond issuances.** The NG raised a total of ₱2,193.3 billion in 2023, broadly close to its full-year target of ₱2,207.0 billion. Moreover, the domestic-to-external funding mix target of 75:25 was attained in line with the debt management objectives of attenuating foreign exchange risks and advancing the development of the local bond market.

55. **Favorable macroeconomic performance and adherence to fiscal consolidation commitments continue to anchor debt sustainability.** The Philippines emerged as the fastest-growing economy in the ASEAN region despite confronting a confluence of global shocks and tighter interest rate-setting, with real GDP expanding by 5.5 percent in 2023, well above the real effective interest rate of -1.3 percent, implying interest-growth differential that is supportive of debt consolidation. Moreover, although the fiscal deficit program continues to be elevated relative to historical levels, the gradual narrowing over the medium term is sufficient to effect a downward trend in the debt-to-GDP ratio, which fell from 60.9 percent at the end of 2022 to 60.1 percent at the end of 2023.

Figure 3. Philippines: NG Debt-to-GDP Ratio
(in percent)



Source: BTr staff calculations and estimates based on 188th DBCC-approved assumptions

56. **Prudent debt management minimizes debt profile vulnerabilities, while firm commitment to the rebuilding of fiscal buffers helps reinforce investor confidence in the soundness of the Philippine credit profile.** With an upward shift in post-pandemic gross financing requirements, the NG continues to borrow responsibly even amid the multitude of global macro-financial uncertainties and unfavorable external developments, to preserve the resilience of its debt profile. Furthermore, adherence to the fiscal consolidation plan as outlined in the MTFF will galvanize the NG's track record of fiscal prudence, positively influencing the market perception of moderation of risks surrounding the country's debt and hence keeping financing costs at reasonable levels. Notably, the sustained tapering of the fiscal deficit from 8.6 percent of GDP in 2021 to 6.2 percent in 2023 demonstrates credibility in the government's resolve to actualize its medium-term plans of gradual fiscal consolidation.

Debt Profile

57. **The NG debt remains heavily denominated in the local currency, thereby mitigating risks from foreign exchange fluctuations.** The share of foreign currency-denominated debt has slightly risen from 31.8 percent in 2022 to 32.2 percent in 2023, amid persistent broad dollar strengthening and volatility in the foreign exchange market. However, the NG continues to rely heavily on local capital markets for its sources of financing, behind the imperative of limiting the accumulation of foreign currency vulnerabilities.

58. **Holders of NG debt are mostly domestic creditors, and a significant amount of external debt is owed to official lenders, limiting the exposure to capital flight.** The risk of financing shocks from foreign private creditors is effectively mitigated by the domestic orientation of the debt stock, as official development assistance (ODA) loans, which comprise 14.5 percent of the debt portfolio. Moreover, while foreign debt securities account for 17.0 percent of total debt stock, a significant portion is held by local banks as asset cover for their Foreign Currency Deposit Units (FCDU) liabilities.

59. **The maturity profile of the NG debt indicates low refinancing risks.** By concentrating its issuances along the intermediate to long segments of the yield curve, as well as the execution of bond exchange transactions aimed at the lengthening of repayment schedules, the NG was able to maintain an average time to maturity of 7.4 years in 2023. The recent trend of expanding the share of medium-term debt reflected NG's efforts to expand its retail bond program, targeting small savers and other non-traditional bond investors whose preference is for investment vehicles that mature around 3 years to 5 years.

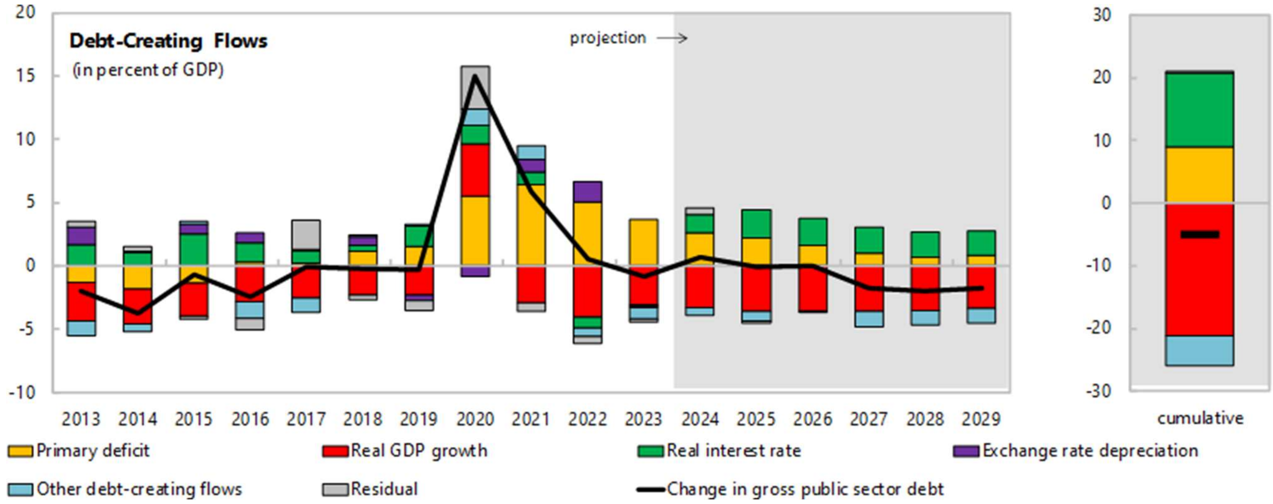
60. **Over 90 percent of the NG debt is in fixed interest rate terms, thereby reducing exposure to interest rate resetting.** This effectively mitigates the pass-through of monetary policy adjustments, which in the context of recent global monetary policy tightening – could lead to abrupt escalation in borrowing costs. This also moderates the risk of exceeding the budget for interest expenses.

61. **The debt servicing burden also remains manageable in historical terms, indicating sufficient payment cover and minimal drag on productive spending.** Although, interest payments in proportion to total revenues and disbursements climbed to 16.4 percent and 11.8 percent in 2023 from 14.2 percent and 9.7 percent in 2022, respectively, the levels should remain subdued relative to historical levels where interest payments accounted for a third of revenues and a quarter of expenditures, or around 5 percent of GDP. As such, while elevated due to the heightened interest rate environment, the magnitude of current interest payments remains at a level that does not threaten debt sustainability or stifle resources for growth-enhancing public programs and investments.

Outlook and Sources of Fiscal Risks

62. **The debt sustainability analysis (DSA) using the IMF's analytical framework indicates that medium-term solvency and liquidity risks are manageable.** The analysis is anchored on the assumptions of the 188th DBCC meeting, which adopts a slower pace of fiscal consolidation and real GDP performance that mirrors pre-pandemic long-term growth outturns. The debt profile is projected to remain intact with minimal vulnerabilities. Both baseline and realistic shock scenarios do not show an explosive debt trajectory, implying a high probability of debt stabilization.

Figure 4. Philippines: Public Debt Sustainability Analysis (DSA) - Baseline Scenario
(in percent of GDP, unless otherwise indicated)



Source: IMF staff for the analytical framework, BTr staff estimates

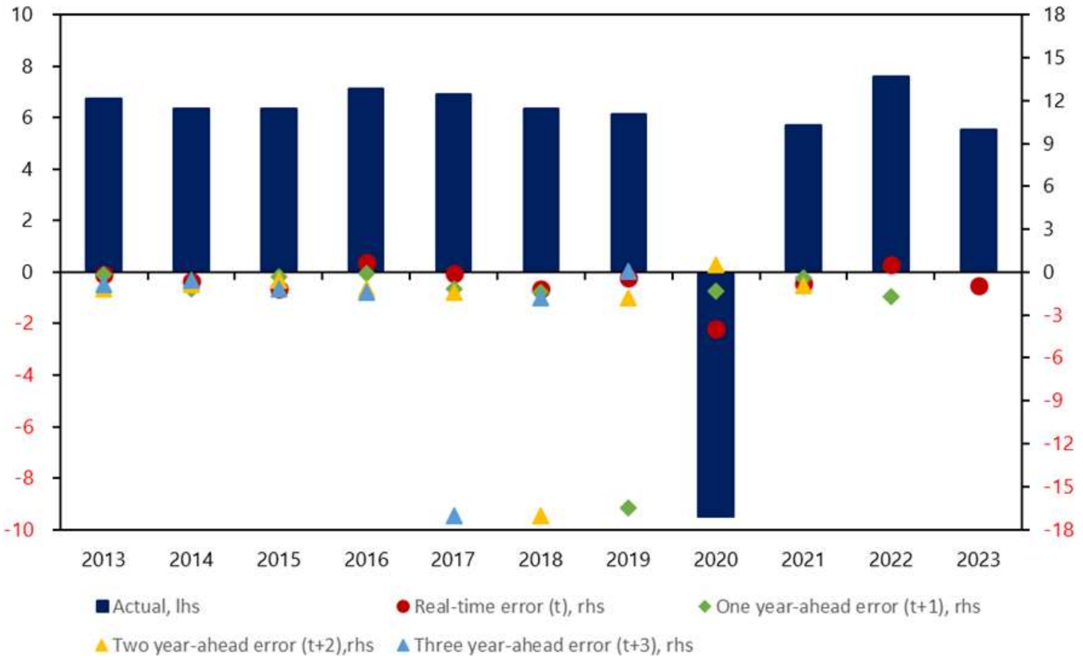
63. **The debt is expected to consolidate at a gradual pace as envisaged in the revised Medium-Term Fiscal Framework (MTFF).** The debt is projected to cross below the 60 percent of GDP level in 2027, indicating a moderate accumulation of fiscal buffers in case of large exogenous shocks and policy uncertainties. Nevertheless, the projected debt path is consistent with the IMF's assessment, which concluded that the current debt trajectory is consistent with a low risk of debt distress.[35]

64. **Adverse deviations from the NG's baseline growth targets continue to pose the greatest threat to the debt trajectory.** As revenue generation is ultimately linked to overall economic activity, weaker-than-expected growth undermines the attainment of the NG's revenue targets and exerts pressure on priority expenditures, thereby inflating borrowing requirements. A smaller output also directly increases the debt-to-GDP ratio. An analysis of the forecast errors for growth also illustrates persistent optimism across longer horizons and therefore a risk to the projections, given heightened uncertainties in the macroeconomic environment. Policy responses to the materialization of downside risks to growth are also constrained, which could exacerbate the impact of macroeconomic fluctuations on the debt.

65. **There are also risks surrounding the NG's fiscal performance on both revenue and expenditure fronts, though these appear to be minimal.** While revenue targets seem unambitious and likely to be surpassed, an analysis of the revenue forecast errors suggests a recurrent tendency for tax collections to underperform. The recent overperformance of customs collections may likely diminish as global commodity prices normalize. A notable shift toward overspending also emerged after the pandemic, with risks stemming from higher interest payments, the MUP pension system, and ongoing decentralization. Nevertheless, overall budgetary balance outturns have veered close to targets in recent history.

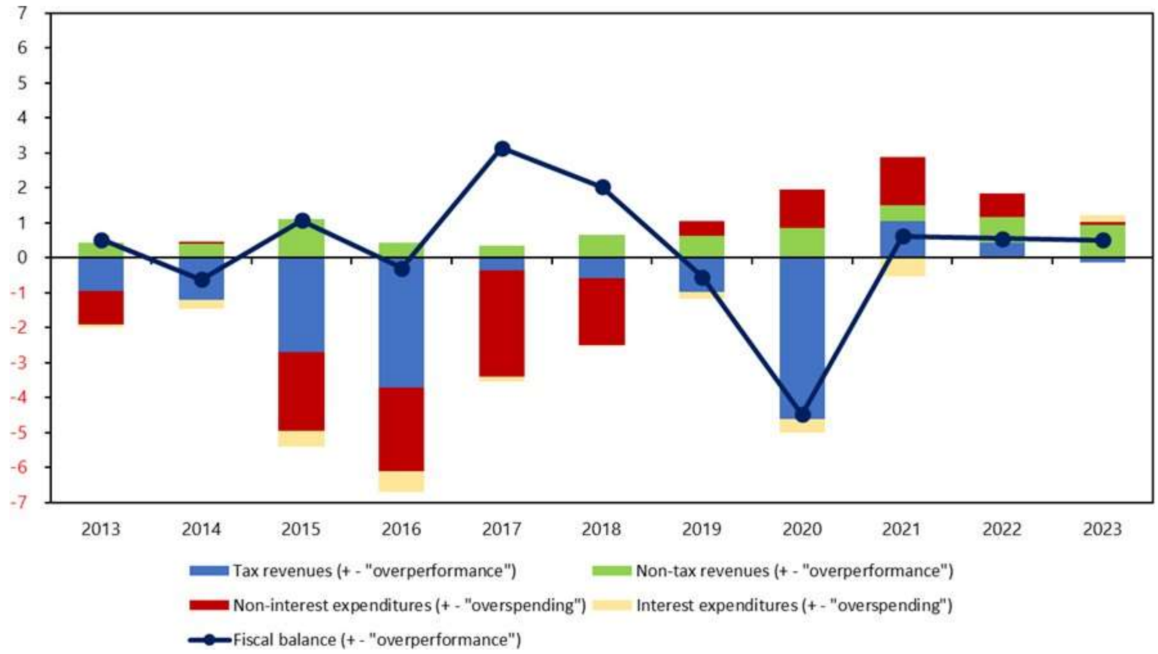
[35] See Annex VII of the 2023 IMF Article IV Consultation Staff Report for the Philippines.

Figure 5. Philippines: Estimation Errors of Real GDP Growth
(in percent)



Note: The forecast errors are based on the midpoint of the real GDP growth assumptions adopted in the BESF for that year.
Source: BTr staff calculations

Figure 6. Philippines: Estimation Errors of NG Overall Balance
(in percentage points of GDP)



Note: The forecast errors are based on the one-year ahead revenue and expenditure program adopted in the BESF for that year and expressed in percentage points of the realized GDP for the year.
Source: BTr staff calculations

Risk Mitigation Measures

Debt Management Strategies

66. **The NG actively calibrates its financing program in response to macro-fiscal developments.** The NG's strategic approach to its borrowing decisions is anchored in the context of its overall cash flows as well as its risk and cost objectives in terms of meeting its financing needs and payment obligations. This ensures that fiscal policy can operate efficiently, with minimal financial portfolio risks associated with market movements and debt rollovers.

67. **The NG continues its effort to reorient the currency composition of the debt toward the local currency to mitigate foreign exchange risks.** The NG's funding mix for the medium term prioritizes domestic sources of financing at 75 to 80 percent of the total. This increases the predictability of debt servicing and diminishes the absorption of valuation effects from unfavorable currency movements.

68. **The NG capitalizes on the Philippines' sovereign creditworthiness to access affordable credit from offshore markets as a supplement to regular domestic funding operations.** As the country becomes less reliant on ODA loans upon graduating to upper middle-income status, the NG aims to maintain its strong track record of reliable access to foreign currency-denominated market financing. The NG is exploring various formats (e.g., Eurobonds or ROPs, ESG-linked notes, Sukuk, among others) for its offshore funding needs to diversify its investor base and achieve well-received deals and cost-efficient pricing. Notably, offshore market financing has become a more viable option in recent history with the aggressive tightening of sovereign spreads and the persistently elevated benchmark rates on concessional loans.[36]

69. **Moreover, the NG aims to maintain a long maturity profile to keep refinancing risks within acceptable thresholds.** The NG concentrates its issuances in long tenor buckets, which is made possible by the post-pandemic resurgence in appetite for long-term market instruments. Whenever market conditions permit, the NG also conducts active liability management exercises to extend the maturity of its existing debt portfolio. Furthermore, the maintenance of a Bond Sinking Fund (BSF) guarantees that sufficient funds are available to redeem domestic debt upon maturity date, even in cases of market insecurity.

70. **An important highlight in the previous year was the NG's fixing of the benchmark rates on its floating rate obligations to the World Bank (WB)-International Bank for Reconstruction and Development (IBRD).** The conversion exercise involved US$11.1 billion (around ₱619.7 billion) of outstanding loans with the WB-IBRD. These were previously priced in the Secured Overnight Financing Rate (SOFR) that skyrocketed from the zero lower bound at the beginning of 2022 to more than 5 percent by the latter half of 2023. Given that 91 percent of the WB-IBRD loans or around 30 percent of the total ODA loan portfolio have been converted, there are considerable interest payment savings from this exercise at around US$111 million (or ₱6.1 billion).

[36] For instance, the sovereign spreads in the October 2022 Eurobond issuance were around 180 to 250 basis points over benchmark U.S. Treasuries, resulting in yields of around 5 to 6 percent. In the similar period, the implied rates on ODA loans were around 3 percent. On the other hand, spreads in the May 2024 Eurobond issuance compressed significantly to 80 to 100 basis points, while the implied rates on ODA loans have jumped to over 6 percent.

Capital Market Development

71. **NG is ramping up its efforts toward expanding its retail investor base as an effective pillar of financing.** Market reception to the NG's issuances of retail instruments (e.g., retail Treasury bonds, retail dollar bonds, *Premyo* or prize bonds, among others) has been exceptionally robust throughout the years, with the retail issuances in 2023 and early 2024 raising ₱323.9 billion and ₱584.9 billion, respectively.[37]Continuous financial literacy drives across the globe and the development of online ordering platforms to support financial inclusion have made investments in retail securities more attractive to small savers and overseas workers. Hence, the share of bonds in the retail format has considerably increased from 21 percent in 2016 to 34 percent of total government securities in 2023.

72. **The NG is also working to accelerate capital market development to ensure adequate and stable domestic financing.** The NG has made substantial progress in the six-year Capital Market Development Roadmap, which includes the formulation of the appropriate policies as well as the establishment of the market architecture and regulatory frameworks. There are also ongoing discussions for inclusion in an emerging market bond index, which will usher in non-resident participation in the local currency bond market. Moreover, there is ongoing work to expand the list of market participants with access to the securities repo markets, which helps to address market fragmentation. Finally, there are efforts to shift to a different benchmark yield curve, to provide better guidance for corporate borrowing decisions and enable the development of alternative instruments (e.g., derivatives) for hedging purposes.[38]

73. **A few legislative measures in the pipeline also address long-standing issues in the capital markets, such as the virtual lack of non-resident participation and a relatively shallow accumulation of new capital.** The Passive Income and Financial Intermediary Taxation Act (PIFITA) proposes a reduction of the withholding tax on interest income to a unified lower rate aligned with the tax regimes of regional peers. This is expected to eliminate barriers to entry faced by non-resident investors in the local bond market, apart from other issues such as complicated tax calculations given various tax treaties between the Philippines and other countries as well as the presence of other friction costs (e.g., custodian fees). Meanwhile, the intended reform to shift from a defined benefit to a defined contribution corporate pension scheme will lead to the development of a fiscally sustainable, actuarially fair, and portable private sector pension system. In turn, as pension funds tend to favor long-term investments, further deepening of pension resources will channel savings toward long-term investments, including government bonds, ameliorating fund-raising constraints of government.

[37] For 2023, this includes the 252.1-billion-peso retail bond in February and the 71.8 billion peso (or 1.3 billion U.S. dollar) onshore dollar bond.

[38] The current yield curve uses the Bloomberg valuation tool (BVAL), which relies exclusively on government bond yields. There are discrepancies between the BVAL curve and rates related to the BSP's monetary policy operations, which may distort price discovery about inflation prospects and other macroeconomic fundamentals.

MONETARY PERFORMANCE

Domestic Liquidity

74. **Preliminary data showed that domestic liquidity (M3) grew modestly by 5.7 percent year-on-year in March 2024.** Domestic claims expanded by 10.8 percent while claims in the private sector grew by 10.9 percent driven by the sustained expansion in bank lending to non-financial private corporations and households. Net claims on the central government expanded by 15.0 percent partly due to the decline in the deposits of the NG with the BSP. Meanwhile, net foreign assets (NFA) in peso terms rose by 5.0 percent. The BSP's NFA grew (by 6.2 percent), while the NFA of banks contracted on account of higher bills payable.

75. **Likewise, bank lending grew in March 2024.** Preliminary data indicated that outstanding loans of universal and commercial banks (U/KBs), net of reverse repurchase (RRP) placements with the BSP, grew by 9.4 percent year-on-year in March 2024.

76. Outstanding loans for production activities increased by 7.7 percent in March, mainly due to the rise in loans to major sectors particularly real estate activities (11.5 percent); electricity, gas, steam, and air conditioning supply (10.1 percent); wholesale and retail trade, and repair of motor vehicles and motorcycles (6.6 percent); construction (18.3 percent); manufacturing (4.9 percent); and transportation and storage (14.3 percent).

    Similarly, consumer loans to residents went up by 25.4 percent in March, driven by the increase in credit, motor vehicle, and salary-based general purpose consumption loans.

Monetary Policy Assessment

77. **In 2023, the BSP held nine monetary policy meetings and adjusted its policy rate or the Target Reverse Repurchase (RRP) Rate by a cumulative increase of 100 bps:** 50 bps in February and 25 bps each in March and October (off-cycle). This was in addition to the 350-bp hike in 2022. The policy decisions of the Monetary Board were deemed necessary as the upside risks to prices continued to dominate the inflation outlook. In raising the policy interest rate, the BSP sought to prevent sustained price pressures from becoming entrenched and causing inflation expectations to drift further from the government target range, thereby causing further second-round effects on wages, transportation fares, and other production costs.

    As both headline and core inflation decelerated, the BSP saw scope to pause its monetary policy tightening in the second half of 2023. However, as prices of certain food items and inflation expectations increased again, the BSP responded with a prompt off-cycle increase in the policy interest rate in October 2023 to ensure that inflation expectations remained firmly anchored.

78. **Meanwhile, in 2024, the BSP held the Target RRP Rate steady at 6.5 percent for two consecutive policy meetings in February and April, with interest rates for overnight deposit and lending facilities maintained at 6.0 percent and 7.0 percent, respectively.**

    The decision to maintain the Target RRP Rate during the monetary policy meeting on February14, 2024 came as the overall outlook for inflation remained broadly unchanged, even if risk-adjusted inflation projections had decreased. Equally important, inflation expectations were more firmly anchored, with mean forecasts remaining within the target range for both 2024 and 2025. Nonetheless, the risks to the inflation outlook still lean toward the upside and thus continue to warrant careful monitoring.

Meanwhile, the BSP's decision to retain the Target RRP Rate during the monetary policy meeting on April 8, 2024, came as the overall outlook for inflation shifted higher but remained within target. However, the risks to the outlook continue to lean towards the upside. The risks have also raised the public's inflation expectations, but they remain broadly anchored over the policy horizon.

79. **As of April 2024, the Monetary Board deems it appropriate to maintain the BSP's monetary policy settings.** At this juncture, monetary policy remains sufficiently tight to help bring inflation down and anchor expectations. Meanwhile, continued progress in the NG's non-monetary measures to address supply-side pressures on the prices of key food commodities will also help temper inflation in the coming months.

80. **Keeping monetary policy settings steady will also allow the BSP to assess further how economic activity continues to respond to tighter financial conditions.** While the country's economic growth prospects remain intact over the medium term, recent indicators suggest that economic activity could moderate as the full impact of the BSP's prior monetary policy tightening continues to manifest. Nevertheless, the BSP remains ready to adjust its monetary policy settings as necessary, in keeping with its primary mandate to safeguard price stability.

EXTERNAL SECTOR

81. The country's external sector remains manageable with adequate liquidity buffers that help cushion the domestic economy against external shocks. **The current account (CA) recorded a deficit of US$11.2 billion, equivalent to -2.6 percent of GDP in 2023, lower by 38.6 percent, which was equivalent to -4.5 percent of GDP in 2022.** The tapering of the CA deficit emanated mainly from the narrowing trade-in goods deficit, which stood at US$65.8 billion in 2023, 5.6 percent less than in 2022, as the contraction in imports outpaced the decline in exports. This was alongside the increase in net receipts from the trade in services and secondary income accounts.

82. **As of April 2024, the country's gross international reserves (GIR) level remains broadly stable, settling at US$103.4 billion**. At this level, the GIR remains well above the standard adequacy metrics and represents an ample liquidity buffer equivalent to 7.7 months' worth of imports of goods and payments of services and primary income. It is about 5.9 times the country's short-term external debt based on original maturity and 3.6 times based on residual maturity. This level of GIR could more than adequately meet unforeseeable demand for the country's immediate obligations, e.g., imports and short-term debt, and enables the BSP to, if necessary, participate in the foreign exchange market to ensure orderly conditions and smoothen volatility.

83. **The external debt-to-GDP ratio also remains prudent and indicates the country's sustained capability to service foreign borrowings in the medium- and long term**. The country's external debt-to-GDP ratio was 28.7 percent in 2023, slightly up from the 27.5 percent registered in 2022. In addition, the country's external debt remains largely in the medium-to-long-term maturity profile, with its share total at 86.4 percent, which means that foreign exchange requirements for debt payments are still well spread out and, thus, manageable.

FINANCIAL SECTOR

Performance and Outlook of the Philippine Financial System[39]

Overall Condition and Performance of the Philippine Banking System

84. **The Philippine banking system capped the year with a stronger balance sheet, profitable operations, and satisfactory capital and liquidity buffers, displaying continued resilience and strength on the back of improved macroeconomic conditions and BSP's sustained implementation of financial sector reforms.**

    Philippine banks[40] remain the center of the country's financial system, providing banking services to the important economic sectors, including households. As of December 2023, the total assets of the system reached ₱25.2 trillion, marking a notable 9.2 percent YoY increase, funded mainly by domestic deposits.

    The expansion in the bank's assets facilitated lending (53.3 percent share or about ₱13.4 trillion) and investments (26.7 percent share or about ₱6.7 trillion) activities.

    This diversified asset mix, coupled with a stable funding structure from resident deposits (83.9 percent), positioned banks for balanced growth. The continued substantial share of universal and commercial banks (93.9 percent) in the banking system in terms of assets further underscored the stability and influence of established players in shaping the financial landscape.

    Overall, this robust performance reflects not only strong depositor confidence but also improved credit demand, which together propelled the banking system's growth story throughout 2023.

85. **Credit growth continued and remained broad-based.** Despite tighter financial conditions, improving economic activity stimulated lending across key economic sectors. Total loans grew by 9.8 percent to reach ₱13.9 trillion at the end of the year. This growth spanned across various productive sectors, with the real estate sector receiving the largest share at 18.5 percent (₱2.6 trillion). This was followed by households with a 13.1 percent share (₱1.7 trillion), wholesale and retail trade with 10.6 percent share (₱1.5 trillion), electricity, gas, steam, and air-conditioning supply with 9.5 percent share (₱1.3 trillion), and manufacturing with a 9.3 percent share (₱1.3 trillion) sectors. Bank lending to all these sectors rose in 2023, with loans for household consumption consistently exhibiting the highest growth at 24.6 percent, a reflection of strong demand for credit spurred by upbeat sentiment, business activity, and improved consumer confidence.[41]

86. **Satisfactory loan quality, with a low NPL ratio and ample reserves for potential losses.** The banking system's non-performing loan (NPL) ratio remained low at 3.2 percent in December 2023.

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[39] All the growth rates and reference periods pertain to y-o-y and as of December 2023, respectively, unless otherwise stated.

[40] Banks comprised around 83.3 percent share (₱25.9 trillion) of the total resources of the Philippine financial system while non-bank financial institutions (NBFIs) held the remaining 16.7 percent share (₱5.2 trillion). NBFIs are composed of BSP-supervised financial institutions such as investment houses, financing companies, investment companies, securities dealers/brokers, pawnshops, lending investors, non-stock savings and loans associations, credit card companies, government NBFIs and authorized agent banks forex corporations. NBFIs also include Social Security System, Government Service Insurance System as well as private insurance companies.

[41] Based on Q4 2023 BSP's Senior Loan Officers' Survey (SLOS), the increase in credit demand of businesses and households (i.e., housing loans, credit card loans, and personal/salary loans) was driven by improvement in customers' economic outlook, higher customer inventory and accounts receivable financing needs, banks' more attractive financing terms, and manageable interest rates.

Banks also proactively maintained a high NPL coverage ratio of 101.7 percent, providing a cushion against potential loan defaults.

Meanwhile, the decline in restructured loans points to improving borrower stability on the back of sound macroconditions. As of December 2023, total restructured loans further contracted by 6.3 percent to ₱302.5 billion. This constituted about 2.2 percent of the banking system's total loans in December 2023.

Banks' strong risk management, including prudent credit underwriting practices, and sound provisioning have ensured stable and diversified credit portfolios, bolstering resilience against unexpected market shocks.

87. **BSP's normalization of policy rates largely influenced the movement in bank lending rates.** The overall mean weighted average interest rate (WAIR) on loans extended by UKBs for November 2023 reached 8.6 percent, exceeding the 8.2 percent and 7.3 percent recorded in March 2020 (before the pandemic) and November 2022, respectively. The increase in lending rates was observed across most loan types when compared to the same month a year ago.

88. **BSP continued the unwinding of its regulatory relief measures on the back of sustained economic recovery.** These include the various COVID-19-related measures such as the use of micro, small, and medium enterprise (MSME) and large enterprise loans as alternative compliance with the reserve requirements, the ceiling on credit card transactions, and the Single Borrower's Limit.

89. **Deposits remained a reliable funding source for the bank's operations.** Deposits grew steadily throughout the year, accelerating by 7.1 percent to reach ₱19.0 trillion in December 2023. While the pace of growth moderated compared to the 9.4 percent in the same period last year, it continued to fuel key lending and investment activities of banks. Deposits likewise remained predominantly peso-denominated and sourced from resident individuals and private corporations.

Bank deposits were mostly in the form of savings deposits at 45.0 percent (₱8.6 trillion) of total deposit liabilities followed by demand and negotiable order of withdrawal (NOW) deposit liabilities at 27.6 percent (₱5.2 trillion), time deposits at 26.9 percent (₱5.1 trillion), and long-term negotiable certificate of deposits or long-term negotiable certificate of deposit (LTNCD) at 0.4 percent (₱81.2 billion). Across these deposit products, time deposits posted the highest annual growth of 22.8 percent (₱953.2 billion) as depositors optimized their savings yield amid a high-interest rate environment. This year's recorded growth in time deposit was also 2.2 times higher than its pre-pandemic compounded annual growth rate (CAGR) of 10.6 percent.

90. **Banks maintained more than adequate capital levels, with sizable headroom over regulatory limits.** Total capital accounts expanded by 13.4 percent and reached ₱3.1 trillion in December 2023, propelled by increases in both retained earnings (up by 14.1 percent or around ₱184.4 billion) and capital stock (up by 8.5 percent or around ₱113.7 billion).

The strong growth in capital accounts translated to a **well-capitalized** banking sector, with both risk-based capital adequacy ratio (CARs) and common equity tier 1 (CET1) ratio that is well above the BSP regulatory minimum and international standard. As of September 2023, the banking system's solo and consolidated CARs stood at 16.7 percent and 17.1 percent,[42] comfortably exceeding both BSP's minimum requirement of 10 percent and the Bank for International Settlements (BIS) of 8.0 percent.

Banks' risk-taking activities were underpinned by a healthy capital base composed primarily of paid-up capital and retained earnings. This robust capital position, further strengthened by high CET1 ratios, provided a safeguard for banks to continue supporting credit flow to the economy. In September 2023, the CET1 ratios of the banking system stood at 15.6 percent and 16.0 percent on a solo and consolidated basis, respectively.

Preliminary data as of December 2023 show that the solo CAR and CET1 ratios of the UKB industry remained high at 16.4 percent and 15.3 percent, respectively, bolstering banks' capacity to support lending activity and absorb potential losses.

Moreover, data on the UKB industry's Basel III Leverage ratio reveals a strong ratio of 9.8 percent and 9.3 percent as of September 2023 on a consolidated and solo basis, respectively. This commitment to regulatory standards continued, with preliminary data as of December 2023, indicating a 9.2 percent leverage ratio on a solo basis. With these metrics exceeding both the BSP's minimum regulatory requirement of 5.0 percent and the international standard of 3.0 percent, the banking sector is well equipped to absorb unforeseen losses and support business operations expansion.

91. **Operations remained profitable and sustained a double-digit growth in net earnings.** Banks generated strong net profit growth, rising by 15.0 percent to reach ₱356.5 billion in 2023 on the back of a sizable increase in interest income (up by 41.2 percent or around ₱375.6 billion). Net interest margins for the same period benefited from higher interest rates, increasing to 4.1 percent from the 3.6 percent recorded a year ago. Other measures of profitability also showed improvement, with return on assets (RoA) and return on equity (RoE) as of December 2023 reaching 1.5 percent and 12.3 percent, higher than the 1.4 percent and the 11.7 percent posted a year ago, respectively.

92. **Highly liquid banks, with key liquidity ratios that were above the prudential requirements.** As of September 2023, the UKB industry maintained high liquidity coverage ratios (LCRs), well above the BSP's 100 percent minimum at 182.48 percent and 182.52 percent, respectively. Preliminary data as of December 2023 further affirms this trend, with the industry's solo LCR registering at 182.7 percent. Moreover, the net stable funding ratio of the UKB industry stood at 135.8 percent and 136.3 percent on a solo and consolidated basis, respectively, in September 2023.

Standalone thrift, rural, and cooperative banks (TBs, RBs, and CBs) also maintained an adequate proportion of liquid assets over their liabilities, exceeding the 20 percent minimum liquidity ratio (MLR) requirement of the BSP. Based on the preliminary data as of September 2023, the solo MLRs of stand-alone TBs, RBs, and CBs were 31.0 percent, 57.2 percent, and 35.8 percent, respectively.

The consistently high liquidity ratios underscore the sound risk management practices and prudent liquidity management strategies adopted by Philippine banks, further reinforcing the industry's ability to fund requirements during short- and medium-term liquidity shocks.

[42] As of September 2022, solo and consolidated CARs of the banking system stood at 15.8 percent and 16.4 percent, respectively.

Bank Outlook for 2024 and 2025

93. **Upbeat bank outlook amid expectations of continued economic recovery, with double-digit growth projections in assets, loans, deposits, and net income.** Based on the preliminary results of the industry survey[43], most respondent banks expect their assets, deposits, loans, and net earnings to grow between 10 and 20 percent in the next two years (2024-2025). This is consistent with the robust performance of the Philippine banking system based on the latest available data.

Moreover, respondent banks foresee an improvement in loan quality as well as a continuous beefing-up of loan loss reserves given the potential impact of inflation and interest rate environment on the bank's portfolio. In terms of priority, loan expansion will be the top priority of banks, prioritizing lending to MSME, real estate, and sustainable and green financing activities. These sectors, along with the household sector, will remain key contributors in shaping the banks' lending activities in the next two (2) years. The insights from the industry are also in line with the latest results from consumer, business, and bank officers' surveys, which show an increase in demand for household and corporate loans in 2024.[44,45]

Importantly, respondent banks indicate their intention to maintain capital and liquidity buffers at levels higher than BSP and international standards to promote institutional resilience.

Risks from the Banking Sector

94. **Exposure of the Philippine Government to banks is limited.** These mainly take the form of deposit placements in banks. The Philippine Government's total deposits in the banking system stood at ₱2.6 trillion and represented 13.4 percent of the deposit liabilities of the banking system in 2023. The level was almost the same but the share to total liabilities slightly contracted from 14.5 percent in 2022.

95. **Notwithstanding this, the BSP is closely monitoring developments in the banking sector given its strong interaction with the Philippine sovereign. This includes movement in non-performing loans (NPLs) amid high interest and inflation environments.** A high-interest rate environment and recent episodes of persistent inflation may erode the purchasing power of individuals and firms and put pressure on the debt-servicing capacity of borrowers. These, in turn, have contributed to expansion in consumer/business loans and growth in bad debt. The banking system's stock of NPLs rose by 12.6 percent and reached ₱449.1 billion at the end of December 2023. Nevertheless, the proportion of soured loans to total loans was low at 3.2 percent. These loans were also fully provisioned as the system-wide NPL coverage ratio stood at 101.7 percent.

96. **Bank exposures to the Philippine Government were mainly in the form of investments in government-issued securities**. As of December 2023, bank investment in government securities reached ₱5.1 trillion, representing 75.6 percent of the banking system's investment portfolio and 20.2 percent of total assets. This was 11.0 percent higher than the ₱4.6 trillion government debt holdings last year.

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[43] Based on the preliminary 2023 Banking Sector Outlook Survey (BSOS)

[44] Based on BSP's Q4 2023 Consumer Expectations Survey, a higher percentage of households' plan to apply for a loan in the next 12 months i.e., 13.7 percent in Q4 2023 vis-à-vis 12.1 percent in Q3 2023. Meanwhile, more firms report expansion plans in the next 12 months based on BSP's Q4 2023 Business Expectations Survey i.e., 25.7 percent in Q4 2023 vis-à-vis 24.1 percent in Q3 2023.

[45] The results of BSP's Q4 2023 SLOS indicate lending is expected to increase as credit demand from both firms and households continues to rise due to positive economic prospects, increased inventory and accounts receivable financing needs for firms, higher household consumption and housing investment for consumers, and banks' more attractive financing terms.

Banks' investments in NG debt securities denominated in foreign currency, which includes the ROPs and debt issuances of other government corporations, amounted to US$12.4 billion (₱686.6 billion[46]) in 2023, higher by 6.4 percent than the US$11.6 billion (₱645.3 billion) holdings in 2022. This represents 43.9 percent of the banking system's investments in foreign currency-denominated debt securities.

97. **Monitoring money laundering/terrorist and proliferation financing (ML/TPF) risk is imperative as it erodes not only the trust in the integrity of the financial system but also poses a financial cost to banks and customers.** The inclusion of the Philippines in the Financial Action Task Force Grey List has limited effects on remittance flows and on the cost of sending money to the country, the Philippines is committed to adopting a "whole-of-country approach" in strengthening the effectiveness of its anti-money laundering/counterterrorism and proliferation financing (AML/CTPF) regime.

98. As digital innovations continue to reshape the banking landscape, **the BSP recognizes the increasing complexity and sophistication of cybersecurity and fraud-related incidents.** Financial institutions face heightened and evolving risks of data breaches, financial theft/fraud, and disruptions to their operations with the emergence of sophisticated cybercriminals.

99. **The Philippines' geographical location makes it highly vulnerable to climate change's adverse effects** which has implications for the banking sector with its exposure to some economic sectors such as agriculture, fisheries, and forestry. In the 2022 Philippine Country Climate and Development Report of the World Bank, it was disclosed that based on model simulations, potential economic damages due to climate change in the Philippines could increase by up to 7.6 percent of GDP by 2030 and 13.6 percent by 2040.

Risk Mitigation Measures

100. On credit risk, the BSP continues to build on the credit risk management guidelines that were adopted as early as 2014 to mitigate credit risk, including concentration risks. In 2022, the BSP adopted the Basel III large exposures framework to identify, measure, monitor, and control concentration risk in the banking system, including conglomerate exposures. The BSP also continues to employ surveillance tools, including the use of forward-looking indicators and the conduct of stress tests, to monitor emerging credit risk in the system.

Through collaborative arrangements, the BSP can closely monitor developments, including emerging credit risks that may pose serious repercussions on the banking sector and the financial system, and can respond proactively, as warranted.

101. BSP-supervised entities have adopted prudent customer due diligence and transaction monitoring to effectively manage risks arising from ML/TPF. Moreover, the responsible use of new technologies, including digital identity, data pooling, collaborative analytics, and data protection, of these supervised entities can assist in the effective, risk-based implementation of AML/CTPF measures, while at the same time, promoting financial inclusion. Preparations for the National Risk Assessment on ML/TF for the banking sector are well underway with the final report expected in 2025.

The BSP also strongly supports legislative measures that facilitate coordinated efforts to strengthen the country's AML/CTPF landscape and improve international and national cooperation in detecting and

[46] Computed at forex rate ₱55.390/US$1

combating ML and TPF. Notable among these legislative measures is the enactment of the amendments to the Bank Secrecy Law which will help the Philippines exit from the FATF Grey List.

102. To counter the evolving IT 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 has also put in place the Advanced SupTech Engine for Risk-Based Compliance or ASTERISC*, a unified RegTech and SupTech solution that will allow timely reporting of cybersecurity incidents in BSP-supervised financial institutions (BSFIs) and implementation of appropriate interventions.

Another initiative is the development of the Financial Services Cyber Resilience Plan which is targeted for completion by 2029. This will serve as the primary framework covering strategies and plans to strengthen cyber resilience in the financial services industry.

Internally, the BSP is continuously building capacity and expertise by hiring cybersecurity specialists and implementing capacity-building and training programs for IT specialists. The BSP is also developing a customer cyber education and awareness program for the public recognizing that financial consumers play an important role in maintaining the financial system's cyber resilience.

103. On climate and environmental risks, the BSP's climate and sustainability efforts to promote the sustainability agenda in the financial system are embodied in the BSP's Sustainable Central Banking Program (SCBP). As part of the SCBP, the BSP has issued enabling regulations for banks on sustainable finance and management of environmental and social risks concerning credit and operational risk exposures of banks as well as investment activities, among others.

In addition to the climate stress testing exercise conducted during the Philippine Financial Sector Assessment Program (FSAP) mission in 2019/2020, the BSP is collaborating with the World Bank for another exercise focusing on climate-related transition risks.

Further, the BSP will strengthen the sustainability-related information architecture to promote transparency and disclosure. This will increase reliance on, and comparability of, sustainability-related information which will empower investors in making informed decisions. These efforts will also minimize greenwashing risks and protect the reputation of the Philippine financial system.

Recently, the BSP issued the Philippine Sustainable Finance Taxonomy Guidelines for banks, a tool for assessing whether an economic activity is environmentally and socially sustainable. Another initiative is the review of sustainability disclosure requirements by the BSP, together with other financial sector regulators under the auspices of the Financial Sector Forum, considering the global baseline sustainability reporting standards.

Government-Owned or -Controlled Corporations (GOCCs)

104. **The 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[47] major financial and non-financial GOCCs, which include the GFIs and SSIs, referred to herein as the Government Corporate Sector.

105. The record-high dividend remittance of the GOCCs of ₱135.13 billion in 2020 and ₱100.74 billion in 2023 since the enactment of the Dividend Law in 1994, which requires the state firms to remit at least 50 percent of their net earnings substantiates the effort of the GOCCs to become efficient partners of the NG in the acceleration of infrastructure development, which were used to fund cash aid programs (financial assistance) intended for vulnerable sectors affected by the coronavirus pandemic in the country, and helped the economy shift to a higher growth path through fiscal consolidation efforts and prioritizing expenditures aligned with the administration's 8-point Socioeconomic Agenda.

106. 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, 72 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, as well as the merger of LBP and the United Coconut Planters Bank (UCPB).

Impact of Philippine Financial Reporting Standards (PFRS) Adjustment on Insurance Contract Liability

107. **The results of operations in the Government Corporate Sector further contracted from a net loss of ₱97.56 billion in 2022 to ₱892.52 billion in 2023.** This is primarily due to continuing changes in assumptions relative to the recognition of Insurance Contract Liability by SSIs to promote a fair and transparent presentation of the SSIs' financial performance.

108. **The recognition of the PFRS 4-Insurance Contracts, in the financial reporting by the SSIs, namely, the Government Service Insurance System (GSIS), the Philippine Health Insurance System (PhilHealth), and the Social Security System (SSS) of future claims from these institutions continues to be prominent in their results of operations.** The GSIS recognized an increase in Insurance Contract Liability of ₱17.45 billion in 2023 from a decrease of ₱0.45 billion in 2022, while PhilHealth, given its wider coverage, contributed the largest impact or an increase of ₱882.78 billion in 2023 from a decrease of ₱72.44 billion in 2022. The SSS, on the other hand, further increased its Insurance Contract Liability by ₱527.26 billion from ₱478.11 billion in 2022.

109. 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, according

[47] 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 (PhilHealth), 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).

to the charters of these corporations, the fulfillment of these obligations is assured by the Republic.

Impact on the Consolidated Public Sector Financial Position

110. Prior to the adjustments in Insurance Contract Liability in the SSIs' accounts, there was further improvement in the financial performance of the 24 major GOCCs from a net income before tax and government subsidies of ₱229.73 billion in 2022 to ₱454.48 billion in 2023. The largest growth was primarily attributed to the SSIs. The GSIS' financial performance improved by ₱55.15 billion mainly due to increased membership, salary adjustments with the implementation of Salary Standardization Law (SSL) V (4th tranche), interest earnings, and gain from fair value changes in financial instruments, while PhilHealth by ₱97.61 billion due to an increase in contribution rates, and SSS by ₱39.12 billion mainly due to an increase in contribution rate by one percent and monthly salary credit starting January 1, 2023. In addition to the SSIs, the three GFIs, namely, LBP, Development Bank of the Philippines (DBP), and Philippine Guarantee Corporation (PGC), posted increases of ₱2.05 billion, ₱5.58 billion, and ₱2.02 billion, respectively, due to expansion of their loan and investment portfolio.

Other government corporations that contributed to the increase in net income are the Power Sector Assets and Liabilities Management Corporation (PSALM) for the sale of Sucat properties to the Department of Transportation, Metropolitan Waterworks and Sewerage System (MWSS) on the recognition of Service Concession Revenue, Civil Aviation Authority of the Philippines (CAAP), National Irrigation Administration (NIA) on the sale of Casecnan, National Development Company (NDC), Manila International Airport Authority (MIAA), National Food Authority (NFA), and Bases Conversion and Development Authority (BCDA). This was however tempered by the drop in net income of the Light Rail Transit Authority (LRTA), Philippine National Railways (PNR), and Philippine Ports Authority (PPA).

Table 9. Philippines: Liabilities of the Government Corporate Sector
(in billion pesos)

Particulars	Audited, 2021	Audited, 2022	2023		
			Unaudited	% of Total Liabilities	% of GDP
TOTAL GOCCs	**16,356.62**	**17,016.95**	**18,501.98**		**75.99**
Share of 24 Major GOCCs (in %)	96.80	96.71	96.43		
TOTAL OF 24 MAJOR GOCCS	**15,832.50**	**16,456.87**	**17,842.34**		**73.37**
MNFGCs	**1,438.74**	**1,857.38**	**1,797.24**	**9.73**	**7.39**
TRANSCO	164.40	515.73	534.18	2.89	2.20
PSALM	578.34	568.19	486.04	2.63	2.00
MWSS	200.21	252.02	255.28	1.38	1.05
NFA	165.92	142.04	131.55	0.71	0.54
NIA	115.90	91.15	92.79	0.50	0.38
LRTA	59.50	60.94	62.70	0.34	0.26
PPA	9.60	67.96	62.01	0.34	0.25
PNR	34.98	36.15	43.67	0.24	0.18
BCDA	43.64	37.23	34.67	0.19	0.14
NHA	20.15	20.28	24.17	0.13	0.10

NPC	19.08	20.15	17.14	0.09	0.07
CAAP	3.74	10.51	15.47	0.08	0.06
NDC	5.64	6.99	8.94	0.05	0.04
NEA	1.19	8.00	7.68	0.04	0.03
LWUA	5.55	8.24	7.51	0.04	0.03
MIAA	5.34	4.81	6.02	0.03	0.02
PNOC and Subsidiaries	3.85	5.32	5.49	0.03	0.02
PEZA	1.71	1.67	1.93	0.01	0.01
GFIs/ SSIs	**14,393.76**	**14,599.49**	**16,045.10**	**86.82**	**65.98**
SSS	7,639.27	8,155.65	8,731.05	47.25	35.90
LBP	2,374.19	2,920.50	3,008.82	16.28	12.37
GSIS	2,100.67	2,097.44	2,117.99	11.46	8.71
PhilHealth	1,163.49	425.39	1,253.81	6.78	5.16
DBP	1,082.44	965.91	901.01	4.88	3.71
PGC	33.70	34.60	32.42	0.18	0.13

Source: GOCCs' Loan Status as submitted to DOF-CAG via GOCC Liabilities and Monitoring System (GLAMS)
GDP: ₱24.29 trillion (current prices)

111. Based on the latest financial statements as of December 31, 2023, the 24 major GOCCs listed above had aggregate domestic and external liabilities of approximately ₱17.84 trillion which represented 96.43 percent of the liabilities owed by GOCCs and 76.08 percent of GDP (Table 7). The Insurance Contract Liability of the SSIs represents 64.19 percent of the total liabilities while GFIs' deposit liabilities held to its bank creditors represent 20.07 percent of the total liabilities in the government corporate sector. Total NG-guaranteed debt amounts to ₱351.25 billion or 1.44 percent of GDP.

112. **Contingent liabilities of the NG to the GOCCs emanating from guaranteed obligations remain manageable as the NG continues to monitor and scrutinize GOCC obligations prior to issuing 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 to support the bankability of their investment, or as required by bilateral and multilateral lending institutions. The outstanding guaranteed debt of all GOCCs as a percentage of total liabilities in the Sector and GDP is 1.44 percent as of the end of 2023 compared to 1.97 percent as of the end of 2022 (Table 8).

Table 10. Philippines: Outstanding Government Guarantee Debt to GOCCs, 2021-2023
(in billion pesos)

	2021	2022	2023		
			Amount	% of Total Guaranteed Debt	% of GDP
MNFGCs	**339.37**	**328.27**	**291.87**	**83.50**	**1.39**
PSALM	249.34	266.66	249.29	71.32	1.18
BCDA	16.82	15.12	13.48	3.86	0.06
MWSS	8.34	9.46	10.83	3.10	0.05
NFA	57.07	30.38	6.72	1.92	0.03
NPC	0.47	0.44	6.41	1.83	0.03

LWUA	1.71	1.95	1.84	0.53	0.01
PPA	2.31	1.88	1.50	0.43	0.01
LRTA	2.01	1.47	0.99	0.28	0.00
PNR	0.99	0.87	0.77	0.22	0.00
PEZA	0.06	0.04	0.03	0.01	0.00
MIAA	0.25	0.00	0.00	0.00	0.00
GFIs	**63.75**	**50.96**	**43.74**	**12.51**	**0.21**
DBP	40.17	35.66	30.28	8.66	0.14
LBP	23.58	15.30	13.46	3.85	0.06
Others	**15.26**	**14.54**	**13.94**	**3.99**	**0.07**
NHMFC	10.73	10.52	10.39	2.97	0.05
SBMA	4.40	3.93	3.49	1.00	0.02
TIEZA	0.12	0.08	0.05	0.01	0.00
AFAB	0.01	0.00	0.00	0.00	0.00
TOTAL	**418.39**	**393.78**	**349.54**	**100.00**	**1.66**

Source: GOCCs' Loan Status as submitted to DOF-CAG bia GOCCs Liabilities and Monitoring System (GLAMS)

GDP: ₱21.05 trillion (at constant 2018 prices)

Of the total NG-guaranteed debt to the Sector, 71.32 percent or ₱249.29 billion refers to PSALM's NG-guaranteed domestic and external borrowings. Under 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 life in 2026.

The decline in outstanding NG-guaranteed debt by 11.23 percent or ₱44.24 billion from ₱393.78 billion in 2022 to ₱349.54 billion in 2023 is mainly attributed to the conversion of NFA's NG-guaranteed debts to NG advances. The provision of NG advances to NFA and the conversion of these NG advances into subsidies are mechanisms under Administrative Order No. 10, s. 1998 to financially restructure NFA and reduce its financing cost, following the passage of the Rice Tariffication Law (RTL).

113. As provided under Presidential Decree No. 1967 and Administrative Order No. 10, series of 1998, NG provides advances for the debt servicing of the guaranteed GOCC obligations to avoid defaulting on guaranteed commitments (Table 3). Total outstanding advances from the NG to the GOCCs, inclusive of interest, comprise 1.72 percent or ₱318.28 billion of the total liabilities in the Sector as of the end of 2023. The outstanding NG advances, inclusive of interest, increased by 7.57 percent or ₱22.41 billion from ₱295.87 billion in 2022 to ₱318.28 billion in 2023, primarily to repay foreign and domestic debts of NFA and LRTA, given their financial difficulties. In addition, to guarantee GOCCs' borrowings, the NG had provided performance undertakings on GOCCs' obligations under Build-Operate-Transfer (BOT) projects. These BOT projects included the power projects of the NPC/PSALM (e.g. Mindanao Coal, CBK).

Table 11. Philippines: Outstanding NG Advances to GOCCs, 2021-2023
(in billion pesos)

	2021	2022	2023
24 Major GOCCs	**236.27**	**264.37**	**285.77**
NFA	71.36	94.58	107.99
NIA	70.77	71.86	74.74
LRTA	39.65	42.57	46.79
PNR	27.65	28.04	28.98

PSALM	23.37	23.73	24.68
PGC	3.05	3.07	2.07
NDC	0.37	0.46	0.46
MWSS	0.07	0.07	0.07
LWUA	0.00		0.00
Other GOCCs	**31.26**	**31.50**	**32.51**
TOTAL	**267.53**	**295.87**	**318.28**

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

Net Budgetary Flows

114. Budgetary support is extended to GOCCs for the implementation of government priority programs such as health insurance, irrigation, and social housing programs (Table 10).

Table 12. Philippines: Subsidies to the Government Corporate Sector, 2021-2023
(in billion pesos)

Particulars	2021	2022	2023
TOTAL GOCCs	**192.77**	**200.41**	**163.54**
Share of 24 Major GOCCs (in %)	89.51	86.29	84.54
TOTAL 24 MAJOR GOCCs	**172.55**	**172.92**	**138.26**
MNFGCs	**91.09**	**92.53**	**87.21**
NIA	38.31	40.66	40.74
NHA	25.71	17.13	18.27
NFA	7.00	7.00	10.18
PSALM	8.00	8.00	8.00
BCDA	4.85	4.58	4.41
NEA	0.78	3.61	1.73
NPC	1.21	6.59	1.57
LRTA	1.02	1.02	1.05
PNR	1.94	1.02	1.11
CAAP	1.53	2.44	0.10
PPA		0.27	0.04
LWUA	0.74	0.22	
GFIs/SSIs	**81.46**	**80.39**	**51.05**
LBP	0.48	0.01	
PhilHealth	80.98	80.05	50.75
SSS		0.34	0.30

The PhilHealth and NIA comprise 56 percent or ₱91.48 billion of the total NG subsidy in 2023. These GOCCs continue to rely heavily on government subsidies to finance premium contributions of indigents and senior citizens and to finance the construction and rehabilitation of national and communal irrigation systems. The biggest drop in subsidies in 2023 was attributed to PhilHealth to ensure efficient utilization of its remaining subsidies.

Table 13. Philippines: Net Budgetary Flows to GOCCs, 2021-2023
(in billion pesos)

Particulars	2021	2022	2023
I. NG Flows from GOCCs	**77.73**	**97.57**	**142.61**
Dividend	57.55	68.34	100.74
Interest on NG Advances	1.56	0.23	0.24
Guarantee Fees Collected	1.72	1.57	3.94
Forex Risk Cover Fee	1.72	1.57	3.94
NG Share on Net Income [a/]	15.52	25.98	35.75
Airport Terminal Fee [b/]	0.06	0.29	0.83
II. NG Flows to GOCCs	**258.16**	**238.77**	**190.85**
Subsidy	192.77	200.41	163.54
Equity	47.52	11.16	0.51
Net Lending	17.88	27.21	26.81
NET NG FLOWS (I-II)	**(180.44)**	**(141.20)**	**(48.17)**

a/ Includes NG Share in PAGCOR's Income and MIAA Profits
b/ For the Year 2023 report is as of November 2023

117. Direct support still outweighs the GOCC contributions/remittance to the NG in 2023 with net outflows of ₱48.24 billion. On the other hand, despite the economic and global challenges facing the government-corporate sector, the NG continues to receive GOCC remittances in the form of dividends, NG share on income, and guarantee fees, among others. GOCCs'' contribution of ₱142.61 billion to the revenue generation efforts of the NG formed part of its total remittances and represented 29 percent of total non-tax revenues in 2023. Out of the ₱142.61 billion remittances from GOCCs, 71 percent represents dividend remittances.

Social Security Institutions (SSIs)

118. GSIS by 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, in which the government has insurable interest. For the period January 1, 2023, to December 31, 2023, the TSI across all lines of GSIS is ₱3.16 trillion.

In CY 2023, GSIS posted ₱9.76 billion in Gross Premiums Written (GPW), a 43 percent increase from the GPW posted in CY 2022.

119. **National Indemnity Insurance Program (NIIP).** In 2023, the Bureau of Treasury initiated the insurance protection of Department of Education (DepEd) school buildings through the NIIP. To boost the resilience of the nation's educational infrastructure, the GSIS provided fire insurance coverage to safeguard over 132,000 public school buildings nationwide with a TSI of ₱843.11 billion.

The fire insurance policy will be for one-year effective January 1, 2024, and will comprehensively cover fire, lightning, and natural catastrophes.

Box 2. Enhancing Financial Resilience of Government's Strategically Important Assets

As part of its ongoing efforts to enhance the financial resilience of public assets and to protect the government's fiscal health from losses arising from disasters, BTr implemented the National Indemnity Insurance Program (NIIP) last January 1, 2024. The program was designed to provide adequate and comprehensive insurance coverage for the government's strategically important assets while also ensuring access to funding post-disaster for reconstruction.

A project years in the making, this was first conceptualized by the Inter-Agency Committee on Government Property Insurance (IAC GPI). The IAC GPI was formed by Administrative Order (AO) 4, series of 2017. The IAC GPI consisted of the Department of Finance, BTr, Department of Budget and Management, Office of the Executive Secretary, Insurance Commission, and Government Service Insurance System (GSIS). Under the AO, the IAC GPI was instructed to develop plans and programs to ensure that key properties, assets, and other insurable interests of the Government are properly and adequately insured.

While developing the plans and policies for the NIIP, it was identified that more information on government assets would be needed to secure better insurance coverage. Among the information needed were the geolocations of the assets, their condition, replacement value, and risk mitigation measures, to name a few. To address this, the National Asset Registry System (NARS) template was developed and rolled out by the Bureau of the Treasury.

A tall order, the IAC GPI then decided to prioritize assets with high socio-economic value - those whose destruction would have a large impact on the society and economy. Aside from looking at an asset class's socioeconomic importance, the Committee agreed to prioritize assets currently uninsured for a future insurance program.

As the Bureau piloted the NARS, it received data on several hundred thousand assets held by the National Government. Notably, the Bureau received numerous data on DepEd school buildings that had not been insured.

The next challenge was to maximize the limited budget available by covering as many assets as possible. For this, a portfolio approach was adopted. This approach, which is different from the status quo of insuring per asset, spreads out the risk of the program and lowers the probability of a single event impacting the program. This allowed the BTr to spread the risk, maximize the premium budget, and have economies of scale on the program.

Likewise unique to the NIIP, the BTr paid for the insurance premium for the program. For the 2024 program, the BTr used the excess payout it had received from the Catastrophe Bond.

For 2024, the NIIP covered 132,862 school buildings of the DepEd with an approximate aggregate value of ₱843.11 Billion. The program was insured through the GSIS in compliance with RA 656 or the Government Property Insurance Law. This was then reinsured by the GSIS to provide another layer of cushion in case of a catastrophic event.

120. **Parametric Insurance.** In 2020, the ADB approved a US$500 million contingent disaster financing (CDF) under its Disaster Resilience Improvement Program (DRIP), to provide the government with rapid access to resources to initiate disaster responses and early recovery efforts as well as address the health and economic impacts of health-related emergencies with minimal delay.

Under DRIP, a parametric insurance program for LGUs was developed to offer pre-specified payouts on a trigger event, usually a natural disaster or a weather-related phenomenon that can be measured objectively, without the need for verifying actual losses. Instead, it disburses payouts once specific criteria or parameters are met. GSIS and ADB have engaged with pilot cities[48] and are targeting the launch of Parametric Insurance by 2024.

Risk Position on Pending Bills

121. **Lowering of Mandatory and Optional Retirement Ages.** The GSIS has reservations about lowering the optional retirement age from 60 to 56 years old. This adjustment would significantly reduce the contribution paying period, resulting in reduced collection, while also extending the period of benefit payments, which leads to more and earlier disbursements. Consequently, it would exert significant strain on the fund.

From the latest study on the lowering of optional retirement age, the following scenarios were considered:

- ***Scenario 1:*** A survey was conducted to gauge the inclination of GSIS employees to avail themselves of the proposed optional retirement ages. The resulting rate was used and adjusted to determine the impact of the proposed lowering of the optional retirement age.
- ***Scenario 2:*** The historical rate of new retirees at age 60 was used as the rate of retirement for the first projection year for ages 56 to 59. On the other hand, the retirement rates from ages 60 to 63 were used as retirement rates of the proposed optional retirement ages for the rest of the projection period.
- ***Scenario 3:*** Only the service table retirement rates from 60 to 63 were used as retirement rates from 56 to 59 for the entire projection period.

Table 12 shows the estimated additional insurance contract liability (ICL) of the GSIS Social Insurance Fund (SIF) 2 upon lowering the retirement age to 56:

Table 14. Philippines: Summary of Results on Lowering the Optional Retirement Age 2022 SIF Closed Group Valuation as of December 31, 2022
(in billion pesos)

Scenario	Retirement Age		Insurance Contract Liability (ICL)	Inc/(Dec) in ICL from Base Case	SIF Assets[49]	SIF Deficit	Inc/(Dec) SIF Deficit
	Optional	Compulsory					
Base Case	60	65	2,069.09		1,420.12	648.97	
1	56	65	2,987.34	918.25	1,420.12	1,567.22	918.25
2	56	65	2,651.47	582.38	1,420.12	1,231.35	582.38
3	56	65	2,635.98	566.89	1,420.12	1,215.86	566.89

[48] Angeles, Bacolod, Baguio, Butuan, Calapan City, Caloocan, Cavite, Dagupan, Davao, Iloilo, Iriga, Marikina, Paranaque, Pasig, Quezon City, Tacloban, Tagaytay and Trece Martires

[49] Based on GSIS SIF Financial Statement as of December 31, 2022

Setting the optional retirement age at 56 allows for the potential simultaneous exit of active members aged 56 to 59, alongside the immediate pension and/or lump sum for separated members within the same age range. The cumulative effects of these two factors amplify the impact of the anticipated retirement of individuals aged 60 to 65.

Note that based on the scenarios, early retirement could cost GSIS an additional ₱567 billion to as high as ₱919 billion, provided that the assumptions accurately capture the future availment of the bureaucracy under such retirement options.

Moreover, ASEAN policymakers are already beginning to address the aging issue, a stark contrast 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 to raise their retirement ages. Only the Philippines is deviating from the trend.

Figure 7. Asia's Changing Views on Retirement[50]

Asia's changing views on retirement

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

While early retirement is indeed an attractive proposition to the public, it should be emphasized that the financial viability of a government-administered defined benefit pension system, such as that of the GSIS, will be compromised.

The retirement age is a major factor in the disbursement of retirement benefits and, because of the improvement in life expectancy and the demographic aging of the covered population, the trend is toward increasing the retirement age. Thus, lowering the retirement age will be detrimental to the sustainability of the pension fund.

While GSIS recognizes the intention of the proposed bills to provide government employees the option to retire early to enjoy their well-deserved benefits, the need to protect and sustain the GSIS SIF must also be ensured. Any change to the law must be financially feasible. Thus, it is recommended that additional funding sources be identified. Only through careful stewardship can the fund's solvency be assured, enabling continued service to future members, pensioners, and beneficiaries.

The current retirement policies of the GSIS under RA 8291 (GSIS Act of 1997) state that unless the service is extended by appropriate authorities, retirement is compulsory for an employee at 65 years of age with at least fifteen (15) years of service. Optional retirement is likewise provided to GSIS members

[50] https://asia.nikkei.com/Spotlight/Asia-Insight/Aging-Asia-rethinks-retirement-to-pursue-productive-longevity

with age 60 years and below provided they have rendered at least fifteen (15) years of government service.

The various bills' proposition significantly differs from the cited GSIS policies since they lower the compulsory retirement age to 60 from age 65 and reduce the optional retirement age to 55 or 56, from 60 years. The lowering of compulsory and optional retirement ages of government employees if the bills become law shall result in the amendment of existing policies on membership, eServices, claims, individual reconciliation, and loan administration, among others.

Moreover, the bills are contrary to the global trend towards increasing the age of retirement along with the improvement in life expectancy. When R.A. No. 8291 was enacted in 1997, the average life expectancy of Filipinos was only 67 years old. It has since increased to 72 years old, which is the same as the world average, with East Asia and the Pacific at 77[51]. In the United Kingdom, the retirement age will be 67 by 2028 and is expected to increase further in line with the increase in life expectancy. Meanwhile, in the United States, the mandatory retirement age was abolished by Congress as early as 1986 by amending the Age Discrimination in Employment Act[52]. Additionally, more and more elderly are staying in the workforce, especially in Asian economies mired by aging populations, such as Japan, Hong Kong, and Taiwan.

These examples are in line with the established premise in retirement theory that the longer the life expectancy, the higher the retirement age. Thanks to advances in the medical field, life expectancies are improving to an extent that people in their 60s, and even 70s, are still very active and productive.

Furthermore, the bills pose an adverse impact on the sustainability of the GSIS SIF and oppose the GSIS mandate to enhance its long-term financial sustainability for current members and pensioners but also future pensioners.

Lowering the optional retirement age under Sec. 13-A of RA 8291 by four (4) to five (5) years will significantly reduce the actuarial life of the SIF.

If said bills are enacted into law, there is a twofold impact on the GSIS Fund. Members will contribute less to the SIF, while the fund is expected to dispense a longer period of pension. Specifically, this proposal reduces the average period that members would contribute premiums to the SIF by 4-5 years and yet they will be entitled to a pension 4 to 5 years earlier. With a shorter period for contributions, combined with a longer period for benefit availment, the GSIS may have to increase the contribution rates and/or decrease the benefit accrual rates to maintain its current solvency ratio and actuarial life.

122. **Granting Additional Benefits to Barangay Health Workers (BHWs).** Section 522 of R.A. No. 7160 (Local Government Code of 1991) mandates the GSIS to establish and administer an appropriate system under which barangay officials shall enjoy insurance coverage. Hence, the NG, through the DBM, is supposed to remit premium contributions to GSIS, which in turn, manages these contributions that are allocated to the Barangay Officials Insurance Fund (BOIF).

However, the NG has been delinquent in remitting the required premium contributions to the BOIF since 1995. The NG has not settled the unpaid premium contributions to the BOIF despite due notice given by the GSIS. As a result, the GSIS suspended the payment of claims for benefits in November 2001 under

[51] The World Bank. Life expectancy at birth, total (years). Accessed from https://data.worldbank.org/indicator/SP.DYN.LE00.IN on February 17, 2023.

[52] Hannon, Kerry (2015). Is It Time To Abolish Mandatory Retirement? Accessed from https://www.forbes.com/sites/nextavenue/2015/08/02/is-it-time-to-abolish-mandatory-retirement/#3181bd9b40db on January 17, 2019.

GSIS Board Resolution No. 332 until such time that BOIF insurance premiums have been remitted to GSIS. The suspension was also because the BOIF no longer had the funds to pay out the claims and benefits to the concerned barangay officials.

As of December 31, 2023, the total premium receivables from DBM amount to at least ₱1.22 billion, including interest receivable from agencies with MOA of ₱831.21 million. Relative thereto, the principal amount owed by the BOIF to the Optional Life Insurance Fund is ₱161.05 million while it owes another ₱4.54 million to the General Insurance Fund.

Payment of claims under the BOIF is still suspended as of this writing. Extending compulsory membership to BHW would mean that their corresponding life and retirement premiums, including Employees Compensation (EC) contributions, should be correctly, regularly, and promptly remitted to the GSIS.

Should these BHWs be considered as GSIS compulsory members, their premium payments will amount to twenty-one percent of the health worker's total compensation. Nine percent shall be paid by the employee, while the employer shoulders the remaining twelve percent.

Also, under the GSIS scheme, for entitlement to a pension, a minimum service requirement of 15 years, and a minimum pensionable age of 60 years are basic requirements for the BHWs to qualify for a pension under R.A. No. 8291 (GSIS Charter).

It is therefore recommended that proposals to extend compulsory 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 the health workers should they become part of the GSIS Social Insurance program.

123. **Pension Reform for Military and Uniformed (MUP) Personnel.** GSIS suggests that existing retirement and other laws on the MUP be amended to cover the pension system for all other MUP.

Instead of a new retirement and pension law, revisions and amendments to the following laws and issuances may be considered:

AFP Pension System	AFP Retirement Age Laws
• P.D. 361, as amended by P.D. 1656 • E.O. 590-A • Memorandum Order No. 90	• R.A. 11709 • R.A. 11939 (amended R.A. 11709)

On the other hand, should Congress wish that the MUP Fund be managed by the GSIS, the GSIS would continue to echo its comments on previous position papers on various MUP bills particularly on the following:

- The GSIS should not be held accountable for financial sustainability or actuarial risk.
- The GSIS should not administer the benefits and pension scheme of the MUP.

- No commingling of the MUP Funds with the GSIS-administered funds, in keeping with the spirit of RA 8291 (GSIS Act of 1997) that the funds of the GSIS shall be used solely to finance the benefits of its members.
- The MUP system should ideally be contributory.
- GSIS shall not advance funds and grant any form of loans to the MUP Trust Fund Committee from GSIS-administered funds.
- The MUP retirement and pension system should ideally be a unified and common system for all the agencies and units of MUP.

Additionally, GSIS proposes the inclusion of the following provision on sovereign guarantee in the MUP Bill:

"Government Guarantee Clause - The Government of the Republic of the Philippines hereby guarantees the fulfillment of the obligations of the MUP system and the MUP Trust Fund Committee as and when they fall due and accepts general responsibility for the solvency of the MUP system."

The GSIS, as an institution and MUP Trust Fund manager, should not be under the coverage and oversight of the Governance Commission for GOCCs (GCG). The GSIS should have the authority to create positions and hire personnel without the need for GCG approval. Hence, there should be an exemption from the coverage of the GCG and R.A. NO. 10149 of the GOCC Act of 2011 including the requirements and approval of the organizational set-up, manpower complement, organizational structure, hiring of personnel, etc. relative to the transitory provisions of the MUP to GSIS.

Personnel costs of the MUP system should not be borne by GSIS.

While some of these concerns raised by the GSIS have been resolved by either inclusion, amendment, or deletion of items, i.e. the non-comingling of funds and retention of role as fund manager, the version of the bills that fully support each item of GSIS' position to promulgate a more responsive law for the MUP is yet to be submitted.

124. **Automatic Promotion of Government Officials and Employees upon Retirement.** The proposal to grant government employees automatic promotion equivalent to one grade level higher than the actual position has implications for existing GSIS policies if it becomes the basis for the computation of retirement benefits. At present, Section 9 of R.A. 8291 and Section 20.11 of the Revised Implementing Rules and Regulations (RIRR) of R.A. 8291 (GSIS Charter) provide that the Basic Monthly Pension (BMP) shall be computed based on the percentage of the Revalued Average Monthly Compensation (AMC). The AMC, in turn, is defined as the average salary received by a member during the last 36 months with premium payments (creditable service) preceding their separation, retirement, disability, or death, or, if, with less than 36 months with premium payments, the actual number of months with premium payments[53].

The use of the adjusted salary grade level due to automatic promotion effectively replaces the use of AMC as the basis for computing retirement benefits. Hence, the proposition of the bill does not follow existing GSIS policies.

[53] GSIS Policy and Procedural Guidelines (PPG) No. 322-18 (Guidelines on the Application of AMC Limits on Retirement or Separation Benefits).

The House Substitute Bill further provides that "…Applying this, the basis for the computation of one's retirement benefits shall be adjusted to the salary grade level".

Under the proposed bill, the basis for the computation of the retirement benefits would be the adjusted salary grade level, not the AMC and other factors as provided under the present GSIS Charter (R.A. No. 8291).

The recent GSIS Actuarial Study notes that the proposed change in the basis for retirement, without additional funding, will exert further pressure on the GSIS SIF.

While GSIS understands the noble intent of the proposed bill, in the interest of equity and given the limited resources of the GSIS SIF, it is best to identify the source of funding for the amount required for any additional pension benefits to be granted.

In view of this, the GSIS suggests the following:

a. **The required funding** based on the foregoing Actuarial Study and scenarios **should be included in the General Appropriations Act (GAA).**

b. Use the term **"increase in benefit**" instead of "promotion," in the proposed bill considering that there is no promotion in rank. The provision can be reworded as follows:

*"SEC. 2. Automatic ~~Promotion~~ **Increase in Benefit**. - All government officials and employees who are eligible for compulsory retirement shall be granted an automatic ~~promotion~~ **increase in benefit** equivalent to one grade level higher than the position being held at the time of the retirement. Applying this, the basis for the computation of one's retirement benefits shall be adjusted salary grade level." (Emphasis supplied)*

As discussed during the house committee hearings, the bill intends to apply the higher salary grade as a factor in the computation in lieu of AMC. As such, the GSIS Actuary Office will be submitting a supplemental actuarial study on this scenario.

GSIS Digitization Efforts

GSIS has always adopted a strategy of pursuing digital transformation to bring its services closer to its members and pensioners. Starting with its pioneering GSIS Wireless Automated Processing System or GW@PS which was first rolled out with the Kiosks, GSIS has moved its services to the web and now to mobile applications.

c. **The GW@PS Kiosks.** The G-W@PS kiosk developed in 2006 gave pioneering mobile access to GSIS services, such as loan applications, online membership status query, UMID card activation, and annual renewal of pensioner's active status Annual Pensioners' Information Revalidation (APIR). It utilizes state-of-the-art technologies, namely radio frequency identification, biometrics, and virtual private networks. These technologies enable a secure system that can process transactions remotely and paperless.

The enhancement of the GW@PS Kiosks in 2023 provides for cardless transactions. The use of GW@PS Kiosks is expected to be viable until 2025 as GSIS transitions to the GSIS Touch mobile app.

d. **The Electronic GSIS Member Online (eGSISMo).** As more and more Filipinos have gained access to the internet from their homes, GSIS capitalized on this development by introducing the eGSISMO in 2016. The web-based facility allowed members to electronically view, anytime and anywhere, their membership profile, record of loans and claims, tentative computation of their social insurance benefits, and more recently, tentative computations of their loanable amount under the various loan programs of the pension fund.

e. **Integration of eGSISMO to DICT eGovernance.** On December 2, 2022, the GSIS and the Department of Information and Communications Technology (DICT) strengthened their partnership on Digital Transformation through the signing of a Memorandum of Understanding for eGovernance.

On May 31, 2023, GSIS completed the implementation of the system integration between the e-Gov app and eGSISMO through Application Program Interfaces (APIs). This integration allows GSIS members to view electronically anytime and anywhere their profile and record of loans and claims from the eGov application.

f. **The GSIS Touch Mobile Application.** The popularity of mobile devices provided GSIS with another opportunity to further increase member touch points in availing of GSIS services. Launched in 2020 during the height of the pandemic, the GSIS Touch mobile app provides GSIS members and pensioners instant access to their GSIS records and benefits using their mobile phones, literally at the tip of their fingers. Through GSIS Touch, members may view their membership and insurance policy records; keep track of their premium remittances and loan payments; and check their dividends.

The loan application in GSIS Touch is an automated process, similar to having a kiosk in the palm of their hand. The application also has a notification facility that updates members on the monthly posting of their premiums and loan payments.

Likewise, pensioners can conveniently undergo the Annual Pensioners Information Revalidation (APIR) through facial recognition or request an interview schedule; check their monthly pension payments; and view loan records via the GSIS Touch.

The GSIS Touch caters to modern security needs, offering biometric login options such as fingerprint and facial recognition for users with smartphones and biometrics features.

g. ***GSIS Touch Liveness and Facial Recognition Feature.*** In June 2023, GSIS in collaboration with DICT, implemented an identity verification measure in the APIR feature of the GSIS Touch through technology-driven services by adopting liveness and facial authentication software. This technology enhances the overall experience and satisfaction of pensioners as they can renew their pension status anytime and anywhere using their mobile phones. Automating identity verification provides a seamless and convenient experience and eliminates the need for physical presence in transacting with the GSIS.

It also protects and helps GSIS to mitigate the risk of fraudulent activities and late reporting of pensioners' deaths resulting in pension overpayment.

h. ***Integration of GSIS Touch to Payment Gateways for the Collection of Loan Repayments.*** In December 2020, GSIS launched the "Ginhawa sa Bayad" Program which allows members to pay their loan obligations through over-the-counter payment facilities offered by external payment service providers thereby paving the way for convenience and ease of doing business.

i. **Information Security.** In the digital transformation thrust of GSIS, information security has always been at the forefront. The security of information and the privacy of data are more than just operational necessities; they are fundamental to maintaining the trust of the GSIS members and stakeholders. In a landscape marked by increasingly sophisticated cyber threats, the commitment of GSIS to cybersecurity, information security, and privacy is unwavering.

j. **Collaboration with Other Agencies.** With the continued evolving nature of security risks, the Secretary of Finance directed the GSIS, SSS, Philippine Deposit Insurance Corporation (PDIC), and the BTr, to formulate a cluster response to institutionalize a cybersecurity program by working together in coming up with a cost-effective defense strategy that will shield their respective systems from potential vulnerabilities and other security threats, risks, and data breaches in the digital landscape.

k. The cluster members handle vast amounts of data and information in their ICT systems. If exploited, these resources could be compromised, potentially derailing the institution's objectives. Recognizing the importance of collective security, the members embrace the concept of a shared defense strategy for cybersecurity, the "Shared Defense for Cybersecurity", to enhance resilience against Cyberattacks. This unified cyber defense strategy will encompass security monitoring and management, vulnerability management, threat Intelligence, and incident response among the participating agencies.

Public-Private Partnerships (PPPs) and other contingent liabilities (CLs)

Monitoring of Financial Liabilities in PPP Contracts

84. As part of its monitoring activities, the PPP Center looks into the financial liabilities and obligations of the government and the private partner in a PPP contract, including the foreseeable and definite financial liabilities as described in the contract (e.g. availability payments, monetary government undertakings, equity contributions, and revenue shares), as well as the potential and actual contingent liabilities (CL) arising from risks therein (e.g. liquidated damages, termination payments, and force majeure-related payments). Implementing Agencies (IA) submit quarterly updates to the PPP Center on the payment of liabilities by both the government and the private partner. The IAs also submit copies of all notices and claims for compensation received by either party during the quarter, if there are any.

85. By the end of December 2023, the PPP Center covered a total of 47[54] PPP contracts in its monitoring and analysis of financial liabilities *(see Annex A for the list of contracts).* Compared to the previous year's report, the list now includes the Davao Sasa Port Project following the execution of its PPP contract in the 3rd quarter of 2023.

[54] As of December 31, 2023, there are a total of 238 awarded PPP projects, 183 of which are ongoing, and 55 are either terminated or concluded. Of the 183 ongoing projects, 121 are national projects and 63 are local projects. The PPP Center's analysis of financial liabilities covers 47 of the 121 national projects; the PPP Center is currently working on the inclusion of water district PPP contracts, which constitute most of the national projects that have yet to be covered, and local PPP contracts.

Updates of the Financial Liabilities in PPP Contracts

The PPP Center reached the following findings after analyzing project information submitted by the IAs, which cover liabilities starting from the issuance of notices of award up to project conclusion, based on documents available to the PPP Center as of December 31, 2023. Hence, the actual liabilities could be higher.

86. Based on available data, the 47 PPP contracts have a combined project cost[55] of ₱1.84 trillion. This is slightly higher than the previous year's total amounting to ₱1.83 trillion, following the addition of the Davao Sasa Port Project.

On the government's liabilities as of December 31, 2023

87. Based on available data, the total foreseeable and definite liabilities of the IAs to the project proponents in 37 out of 47 PPP contracts amount to at least ₱406.30 billion over the life of the contracts. The ₱0.03 billion increase from the previous report is due to the addition of information on approved variation works, recently submitted by the IAs to the PPP Center.

    Of the total amount of foreseeable and definite liabilities, at least ₱171.41 billion has been confirmed paid.

88. Based on available data, the total unpaid CLs of the IAs arising from the claims of the private partners in 6 out of 47 PPP contracts is ₱13.79 billion as of December 31, 2023, which is a ₱4.52 billion increase from the previous year's report due to additional claims filed. The following provides information on the government's CLs, depending on the source, e.g. Material Adverse Government Action (MAGA), force majeure, and the government's failure to fulfill obligations, among others:

    a. Two claims for compensation due to MAGA were added. One of the claims amounted to ₱0.06 billion and was filed on May 21, 2020, due to the effects of COVID-19 pandemic-related government issuances to the project. The other claim amounted to ₱1.94 billion and was filed on September 6, 2023, due to projected losses of the private partner as a result of the passage of new laws and issuances.[56] Both claims were filed by one private partner.

    b. Six new notices of force majeure were filed by one private partner. None of these notices resulted in compensation claims.

    c. Five new compensation claims were filed by a private partner due to the government's failure to fulfill its obligations. The new claims amounted to ₱2.10 billion.

    d. Other claims for compensation added to this report include two previously filed variation-related claims that are still being disputed. Both claims were filed by one private partner and amounted to ₱0.42 billion.

89. As of December 31, 2023, no notice of default has been filed by any of the project proponents of the 47 PPP contracts. The PPP Center does not foresee any of these contracts being terminated in 2024.

[55] Estimated project cost during project approval

[56] RA 10928; RA 10930; Department of Education Department Order No. 3, series of 2018; RA 11261; RA 11909.

On the private partners' liabilities as of December 2023

90. Aside from government liabilities, the PPP Center monitors and reviews the liabilities of private partners. The foreseeable and definite liabilities of project proponents may include concession fees, lease payments, payment of loans of the IA, and reimbursement of IA expenses, among others. Based on available data as of December 31, 2023, the total foreseeable and definite liabilities of the project proponents to the IAs in 36 out of 47 contracts amount to at least ₱73.84 billion over the life of the contracts. Of this amount, at least ₱25.95 billion has been confirmed.

91. The private partners may also incur CLs stemming from their failure to fulfill an obligation and failure to achieve key performance indicators, among others. Based on available data as of December 31, 2023, the cumulative number of claims for compensation filed by IAs is ₱590.42 million. With a total of ₱327.45 million of claims from the previous report, the ₱262.97 million increase is due to the claims filed for liquidated damages for failure to fulfill an obligation and penalties for failure to meet key performance indicator (KPI). Of the total claims, the private partners already paid ₱32.10 million.

<u>Policy Developments and Initiatives</u>

92. A major development in PPPs in 2023 is the passage of RA 11966 or the PPP Code of the Philippines, which was signed into law on December 5, 2023, and became effective on December 23, 2023. Its Implementing Rules and Regulations (IRR) was signed on March 22, 2024, and became effective on April 6, 2024. The Code serves as the unified framework for PPPs in the Philippines and aims to provide a stable and predictable environment to promote more collaborations between the public and private sectors.

93. One of the salient features of the PPP Code and its IRR, which is expected to improve the government's management of fiscal risk, is the creation of a Risk Management Fund (RMF). The RMF aims to ensure fiscal sustainability and negotiate better financing terms for PPP Projects. It shall be managed by the PPPC and may be tapped by the IAs for the payment of contingent liabilities. The Code also institutionalized the Contingent Liabilities – Technical Working Group (CL-TWG) composed of DOF, BTr, DBM, and PPPC and designated the PPPC, in coordination with the other members of the CL-TWG, to formulate guidelines for the management of CLs and the use of the RMF, subject to the approval of the DBCC.

94. Given that the RMF may be tapped by both national and local IAs for their PPP projects, and that the Code itself promotes improved fiscal management for local PPP projects, the PPPC anticipates the following developments:

    - An expanded scope in monitoring CLs, which includes local projects;
    - Possible additional initiatives on local PPP fiscal management; and
    - New/additional policies on the treatment of CLs, structuring CLs in PPPs, and improving risk mitigation measures.

95. Also pursuant to the Code and ongoing developments in monitoring PPPs, including financial liabilities, the PPP Center is developing a revised PPP Projects Monitoring Framework and Protocols, subject to the approval of the PPP Governing Board. The framework shall consolidate all reporting requirements for PPP projects and shall provide a streamlined monitoring and reporting system for PPP projects, including the monitoring of the government's fiscal exposure.

Local Government Units (LGUs)

Fiscal Performance and Medium-Term Outlook

96. The final FY 2023 target 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 ₱315.68 billion. As per the preliminary FY 2023 data, the local revenue collections of PCMs exceeded the full-year target at 102.3 percent or ₱322.99 billion in actual collections.

97. The total local revenue collections, including Other Receipts, reached ₱331.06 billion in FY 2023. Local tax revenues accounted for 73.05 percent of the collections, amounting to ₱241.86 billion, wherein ₱147.05 billion was derived from local business tax collections. Meanwhile, 26.95 percent of the collections, or ₱89.24 billion were sourced from non-tax revenues.

98. The total current operating income of LGUs, composed of local and external sources, decreased by 8.12 percent or ₱89.96 billion from FY 2022 to FY 2023. The decrease is mostly attributed to the national tax allotment (NTA) of LGUs, and it is 14.96 percent lower than the NTA in the previous year. Most of the provinces, cities, and municipalities remain dependent on NTA, recording a 63.66 percent contribution to the current aggregate operating income for FY 2023.

99. On Local Development Fund (LDF), preliminary FY 2023 data show that LGUs have total disbursements at 62.0 percent. Municipalities have the highest disbursement rate at 79.6 percent, followed by cities at 68.96 percent, and by provinces at 48.39 percent.

100. In terms of surplus, preliminary FY 2023 reports show that LGUs have an aggregate amount available for appropriations/operations[57] or investable funds amounting to ₱358.47 billion, 88.47 percent from the General Fund, and 11.53 percent from the Special Education Fund. This is equivalent to 1.48 percent of the country's GDP. Cities have the most investable funds amounting to ₱151.29 billion, representing 42.21 percent of the total amount. In terms of income classification, more than half of the total surplus, or ₱211.05 billion is from first-income class LGUs.

101. The Bureau of Local Government Finance (BLGF) issued 313 Certificates of Net Debt Service Ceiling and Borrowing Capacity (CNDSC/BC) in FY 2023, an increase of 66.50 percent from 188 Certificates issued in FY 2022. This increase in the number of LGU borrowings is attributable to the new plans and programs implemented by new administrations, following the local election. In FY 2023, LGUs total borrowing capacity was at ₱198.23 billion, while the total loan requirement was at ₱92.70 billion. The average borrowing capacity utilization for the past three years is 40.58 percent.

102. Most LGUs resort to borrowing to finance infrastructure projects, one-third of which are for climate resilience and disaster response projects. For the past three years, an average of 15 percent of LGUs issued with CNDSC/BCs have included solid waste management projects, as well as water supply and sanitation projects as loan projects.

103. As per the preliminary FY 2023 data, more than 99 percent of LGUs are still within the prescribed limit of the LGC in terms of debt servicing.

[57] The amount available for appropriations represent 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

104. The BLGF is set to adjust its forecast on LGU collections following the 17.48 percent increase from FY 2022 to FY 2023. The Bureau has a positive outlook on the growth of locally sourced revenues, with expectations of exceeding the annual growth rate target of at least 7 percent in FY 2024, and at least 10 percent in FY 2025 to FY 2028, as indicated in the PDP.

Sources of Fiscal Risk

105. As of Q3 FY 2023, the total outstanding loans of LGUs from government and private financial institutions is ₱189.13 billion, an 8.36 percent increase from the ₱174.54 billion balance in FY 2022.

106. The surplus decreased by 9.86 percent, from ₱397.7 billion in FY2022 to ₱358.47 billion in FY 2023.

107. The DOF, on February 1, 2024, issued Department Circular No. 002-2024, providing supplemental guidelines for granting relief on surcharges and interest on tax on the transfer of real property ownership to support the Estate Tax Amnesty Program of the government. This allows LGUs to ease the process for the full availment of estate tax amnesty and to facilitate the formalization of real property transfers, thereby broadening the national and local government's revenue base, and improving real property tax collection efficiency. However, this will also result in foregone revenues for LGUs from penalties on interests due to delinquencies.

108. The 2025 local elections could negatively impact the plans, programs, and projects of the LGUs. The implementation of programs and projects may be significantly delayed due to political reasons. The new leadership may identify new priorities, allocating a significant portion of the resources to them. The priorities of the local officials may not always align with the policies and programs of national agencies, which may result in undue delays or substantial modifications in the implementation of joint projects.

109. The implications of the Automatic Income Classification of LGUs Act passed in 2023 include (i) the increase in the percentage of LGUs applying new salary schedules; and (ii) the exclusion of upgraded LGUs that were once covered by the financial grants or assistance from the national government agencies.

110. Natural calamities such as typhoons are perennial risks to LGUs being at the forefront of government response. In FY 2023, the total allocated budget of LGUs for local disaster risk reduction management reached ₱48.77 billion. This is 2 percent higher than the mandated allocation, i.e. 5 percent of the estimated regular revenues, under the Philippine Disaster Risk Reduction Management Act of 2010.

Risk -Mitigating Measures and Initiatives

111. With certain difficulties confronting various LGUs in the implementation of the devolved functions, the President has directed national government agencies to evaluate the impact and to review these functions vis-a-vis the LGUs' capacity and preparedness.

112. The BLGF continuously monitors LGUs on breach of the 20 percent statutory limit on debt services through the evaluation and simulation of their existing loans and proposed loan applications. Loan proposals exceeding borrowing capacities are recommended to the concerned LGUs for scaling down.

113. The Real Property Valuation and Assessment Reform (RPVAR) Bill, or House Bill No. 6558 in the House of Representatives, and Senate Bill No. 2386 in the Senate, aims to promote the development of a just, equitable, and efficient real property valuation system. The reform will broaden the tax base for

real property-related taxes of national and local governments. The proposed reform will enhance tax compliance and tax collection efficiency in LGUs. The RPVAR Bill is a priority legislative agenda of the current administration and is significantly progressing in the legislative mill.

114. The BLGF, which is currently implementing the Local Governance Reform Project (LGRP), a project loan, has identified the following systems to be in place: (i) the new electronic Statement of Receipts and Expenditure (eSRE); (ii) the Real Property Information System; and (iii) the Computer-Assisted Mass Appraisal with Geographic Information System, with a proposal for change in scope and a two-year extension. The change of scope covers new outputs such as the development of the new eSRE system and the revision of manuals in the evaluation of local treasury and assessment operations of LGUs.

Natural Disasters

Brief Country Profile: A Country at Risk

115. **The Philippines, located in the Pacific Ring of Fire and the Northwest Pacific Basin, is consistently ranked among the top vulnerable countries, based on global risk indices and international reports analyzing disaster and climate events**. In the July 2022 Notre Dame-Global Adaptation Index (ND-GAIN) Country Index[58], the Philippines ranked 113th[59] out of 182 countries and is one of the countries with a high level of vulnerability[60] to climate change and a low level of readiness.[61] In addition, the country tops the 2023 World Risk Index (WRI)[62] with the highest exposure to disaster risks (46.86[63]) among 193 countries, an increase from the previous height of 46.82 exposure last 2022 WRI[64].

116. **The Philippines' vulnerability is due to its geographical location and archipelagic structure.** Its position within the Pacific Ring of Fire indicates that the country is located along the boundaries of major tectonic plates, rendering it highly vulnerable to powerful earthquakes. It also experiences a high frequency of typhoons, accompanied by damaging winds, heavy rainfall, and storm surges 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.[65]

117. **Climate Projection of the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA).[66]** Projections of seasonal temperature increase, changes in rainfall, and total frequency of extreme events at the national and provincial levels utilized mid-range scenario outputs.[67]

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58 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.

59 Philippines | ND-GAIN Index. (2022). Nd.edu. https://gain.nd.edu/our-work/country-index/rankings/

60 ND-Gain Vulnerability Indicators: Food, Water, Health, Ecosystem Services, Human Habitat, and Infrastructure

61 ND-Gain Readiness Indicators: Economic, Governance, and Social

62 WorldRiskReport 2023 Focus: Diversity. https://weltrisikobericht.de/wp-content/uploads/2023/10/WRR_2023_english_online161023.pdf

63 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)

64 WorldRiskReport 2022 Focus: Digitalization N E W. (n.d.) https://weltrisikobericht.de/wp-content/uploads/2022/09/WorldRiskReport-2022_Online.pdf

65 Highlights: IPCC AR6 WG1 and its relevance to the Philippines – OML Center. (September 9, 2021). 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

66 Climate Projections. (n.d.). Climate Change in the Philippines. https://www.pagasa.dost.gov.ph/information/climate-change-in-the-philippines

67 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.

- ***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°C 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.

Impacts of Disasters

118. There were eleven (11) tropical cyclones (TCs) that entered the Philippine Area of Responsibility (PAR) in 2023. Most of these TCs were exacerbated by the effects of a shear line defined as the convergence of cold northeast monsoon (locally known as *Amihan*) and warm winds blowing from the Pacific Ocean. As a result, several regions experienced heavy rainfall.

Tropical Cyclones Egay *(International name: Doksuri)* and Falcon *(International name: Khanun)* caused great damage and losses. As TC Egay exited PAR on July 28, 2023, TC Falcon entered the following day on July 29, 2023. The TCs left damage and losses to the Cordillera Administrative Region (CAR) and Region I amounting to ₱27.50 billion.

Table 15. Philippines: Summary of Damage and Losses by Region
(in billion pesos)

Region	Damage	Losses	Total
CAR	8.68	2.43	**11.11**
I	14.35	2.04	**16.39**
Total	**23.03**	**4.47**	**27.50**

Source: Post-Disaster Needs Assessment (PDNA) reports
Note: Totals may not add up due to rounding up

Based on the Regional Rehabilitation and Recovery Programs (RRPs) adopted by the Regional Disaster Risk Reduction and Management Councils of CAR (September 28, 2023) and Region I (September 21, 2023), the investment requirement for the rehabilitation of areas affected amounts to ₱29.77 billion.

Table 16. Philippines: Summary of Investment Requirements by Sector for CAR
(in million pesos)

Sector	2023	2024	2025	Total
Social	247.19	513.01	1,723.23	**2,483.43**
Infrastructure	356.93	7,806.48	*None reported*	**8,163.41**
Productive	455.83	1,477.12	5.20	**1,938.14**
Cross-Sectoral	3.05	713.62	0.60	**717.27**

Total	1,063.00	10,510.22	1,729.03	13,302.25

Source: CAR RRP for TCs Egay and Falcon
Note: Totals may not add up due to rounding up

Table 17. Philippines: Summary of Investment Requirements by Sector for Region 1
(in million pesos)

Sector	2023	2024	2025 and beyond	Total
Livelihood and Business Development	25.10	1.52	0.00	**26.62**
Agriculture and Fisheries	1,938.20	1,417.76	411.65	**3,767.53**
Housing and Settlement	437.60	150.48	550.96	**1,139.04**
Social Services	341.32	815.26	87.54	**1,244.12**
Physical Infrastructure	9,877.25	309.90	100.00	**10,287.15**
Total	**12,619.47**	**2,694.93**	**1,150.15**	**16,464.48**

Source: Region 1 RRP for TCs Egay and Falcon
Note: Totals may not add up due to rounding up

119. The Mindanao regions were affected by a series of earthquakes in 2023. A Magnitude (Mw) 6.8 earthquake occurred in Sarangani Island, Province of Davao Occidental on November 17, 2023; while Mw 7.4 and Mw 6.8 earthquakes affected the Province of Surigao del Sur on December 2, 2023, and December 4, 2023, respectively. These earthquakes resulted in aftershocks affecting the provinces and other areas in Mindanao.

Based on the situational reports (SitRep) of the National Disaster Risk Reduction and Management Council (NDRRMC) released in December 2023, the following are the reported cost of damages:

Table 18. Philippines: Damage from the Series of Earthquakes in Mindanao
(in million pesos)

Sector	Mw 6.8 earthquake in Regions 11 and 12	Mw 7.4 and Mw 6.8 earthquakes in Regions 10, 11, and Caraga
Housing and Settlement	202.66	*No amount indicated*
Agriculture and Fisheries (including irrigation)	*No amount indicated*	153.16
Physical Infrastructure	1,422.47	1,100.53
Total	**1,625.13**	**1,253.69**

Sources: NDRRMC SitRep No. 18 dated December 17, 2023, and NDRRMC SitRep No. 16 dated December 8, 2023

There is no indication yet if a rehabilitation and recovery plan would be prepared for these earthquakes.

120. The country experienced the effects of El Niño towards the end of 2023 until the first half of 2024. NDRRMC El Niño Advisory No. 12 dated June 25, 2024, reported that the “El Niño in the tropical Pacific Ocean has ended as both oceanic and atmospheric indicators have returned to El Niño Southern Oscillation-neutral levels.” According to the said advisory, the estimated cost of damages and losses to the Agriculture Sector amounts to ₱9.89 billion.

The El Niño National Action Plan (NAP), with a timeframe of the third quarter of 2023 to December 2024, provides the government's interventions to address the negative effects of the El Niño phenomenon on water, food, and energy security; health; and public safety.

121. The MT Princess Empress oil tanker, loaded with 800,000 liters of Industrial Fuel Oil, was reported submerged in the waters near Naujan, Oriental Mindoro on February 28, 2023. This has resulted in oil and chemical leaks that affected water quality; caused production losses for fisherfolks; and led to environmental degradation. As of April 12, 2024, the total estimated cost of losses from the oil spill is ₱7.01 billion.

Table 19. Philippines: Damage, Losses, and Needs from the Oil Spill
(in billion pesos)

Sector	Damages	Losses
Social	0	0.01
Productive	0	5.00
Cross-Sectoral	0	2.00
Total	**0.00**	**7.01**

Source: Presented during the 9th Meeting of the National Task Force on Oil Spill (April 12, 2024)
Note: Totals may not add up due to rounding up

Based on the report of the National Task Force on Oil Spill, as of April 2024, the cost of expenses incurred by the NG amounts to ₱1.235 billion. This includes operational costs (₱28.495 million) of NGAs in responding to the oil spill incident and direct assistance to affected communities (₱1.206 billion) in the form of food and non-food items; cash assistance; and other livelihood support activities.

National Disaster Risk Reduction and Management Fund

122. **The National Disaster Risk Reduction and Management Fund (NDRRMF) is being made available not just for immediate relief, reconstruction, and rehabilitation efforts but is also intended to support pre-disaster activities resulting from natural or human-induced calamities.**[68] The total available appropriations for NDRRMF amounted to ₱22.7 billion, with details indicated in the table below:

Table 20. Philippines: National Disaster Risk Reduction and Management Fund
(in million pesos)

Particulars	FY 2023 Continuing Appropriations	FY 2024 Current Appropriations
NDRRM Program	2,235.72	19,500.00
Parametric Insurance[69]		1,000.00
Total	**2,235.72**	**20,500.00**

[68] National Disaster Risk Reduction and Management Fund, Rep. Act No. 11936, available at https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2023/VolumeI/NDRRMF.pdf (last accessed March 24, 2023).

[69] R.A. No. 11975 or the General Appropriations Act of 2024, XL. National Disaster Risk Reduction and Management Fund (Calamity Fund, Special Provision (c) to wit: One Billion Pesos (1,000,000,000) for the parametric insurance coverage of government facilities against natural calamities. xxx available at https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2024/VolumeI/NDRRMF.pdf

a. **₱19.5 billion under the NDRRM Program**, which may be used for reconstruction, rehabilitation, and repair of essential infrastructures, as well as aid, relief, and other necessary works or services, including pre-disaster activities, related to 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 year or the two (2) preceding years. This fund may also be used to replenish the Quick Response Fund (QRF) when the remaining balance of the implementing agency has reached 50 percent.

b. **₱1 billion for the parametric insurance coverage of government facilities against natural calamities**, which shall be administered by the GSIS and subject to the guidelines to be issued by DBM and DOF in coordination with GSIS.

123. **In addition to the ₱20.5 billion current appropriations for NDRRMF, ₱7.9 billion Quick Response Fund (QRF)[70] was also provided in the 2024 budget of the following agencies**:

Table 21. Philippines: FY 2024 GAA QRF Allocation by Agency
(in million pesos)

Particulars	Allocation
DA-OSEC	1,000
DepEd-OSEC	3,000
DOH-OSEC	500
DILG-BFP	50
DILG-PNP	50
DND-OCD	500
DPWH-OSEC	1,000
DSWD-OSEC	1,750
DOTr-PCG	75
Total	**7,925**

Marawi Siege Victims Compensation Fund[71]

124. For FY 2024, the approved Marawi Siege Victims Compensation Fund amounts to **₱1 billion**[72], lodged under the Marawi Compensation Board[73] (MCB) budget, to be used for the compensation of:

a. owners or legal heirs of damaged residential, cultural, commercial structures, and other properties (e.g., house appliances, pieces of jewelry, pieces of machinery, rice mills, and other equipment of value);

b. owners of private properties demolished under the implementation of the Marawi Recovery, Rehabilitation, and Reconstruction Program; or

c. heirs of those who died or are legally presumed dead.

[70] Ibid.

[71] The Marawi Siege Compensation Act (RA 11696), signed into law last 2022, provides the basis for the provision of monetary compensation due to damaged properties in the barangays affected and resulting deaths due to the Marawi Siege in 2017.

[72] Compensations covers the 24 barangays of the Main Affected Area (MAA) and 8 other barangays affected by the Marawi Siege.

[73] The MCB was created to evaluate, process and investigate applications; approve claims and resolve disputes over claims; and disburse compensation.

The MCB is mandated by law to determine the monetary compensation and award to eligible claimants based on parameters for compensation set in the Implementing Rules and Regulations (IRR).

125. The MCB has an operating budget amounting to **₱131.95 million** including ₱50 million for MOOE and ₱81.95 million for PS including retirement and life insurance premiums. The MCB shall function for five (5) years from the effectivity of the IRR (June 2023).

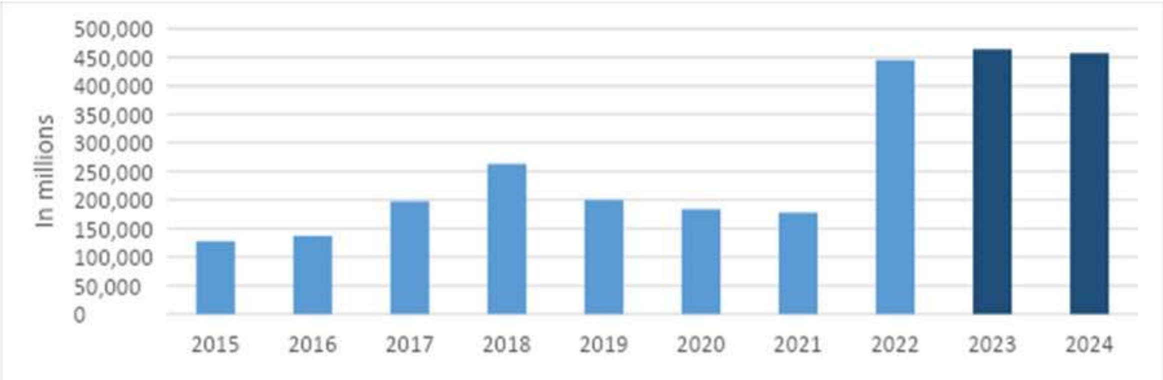
Climate Change Expenditure Tagging (CCET)

126. **The Philippines is highly prone to disasters triggered by natural hazards.** Around 60.0 percent of its land area and an estimated 74.0 percent of its population are exposed to several natural hazards such as floods, cyclones, droughts, earthquakes, tsunamis, and landslides. Considering that the country is in the Northwestern Pacific Basin, the most active tropical cyclone basin in the world, natural hazards are expected to intensify under climate change.[74]

127. The National Climate Change Action Plan (NCCAP) was formulated to outline the country's agenda for adaptation and mitigation from 2011 to 2028. The NCCAP was drafted through multi-sectoral processes to ensure that the concerns of various sectors are heard and considered and that the challenges of climate change are comprehensively addressed. Public financing will prioritize adaptation strategies to reduce the vulnerability and risks of communities, particularly the marginalized and poor. At the same time, this plan will provide a policy environment that will encourage the participation of the private sector to optimize mitigation opportunities towards sustainable development.

128. **Climate change expenditure has surpassed its pre-pandemic levels.** Coming from slow spending since the pandemic, the climate change expenditure has picked up pace in FY 2022, which recorded a staggering ₱444.86 billion. This represents a 250.0 percent increase from the ₱178.19 billion posted in the previous year.

Figure 8. Philippines: Climate Change Expenditure, 2015-2024



Source: BESF Tables on Climate Change Expenditures
Note: Amounts presented from 2015-2022 are actual obligation levels while those from 2023-2024 are GAA levels

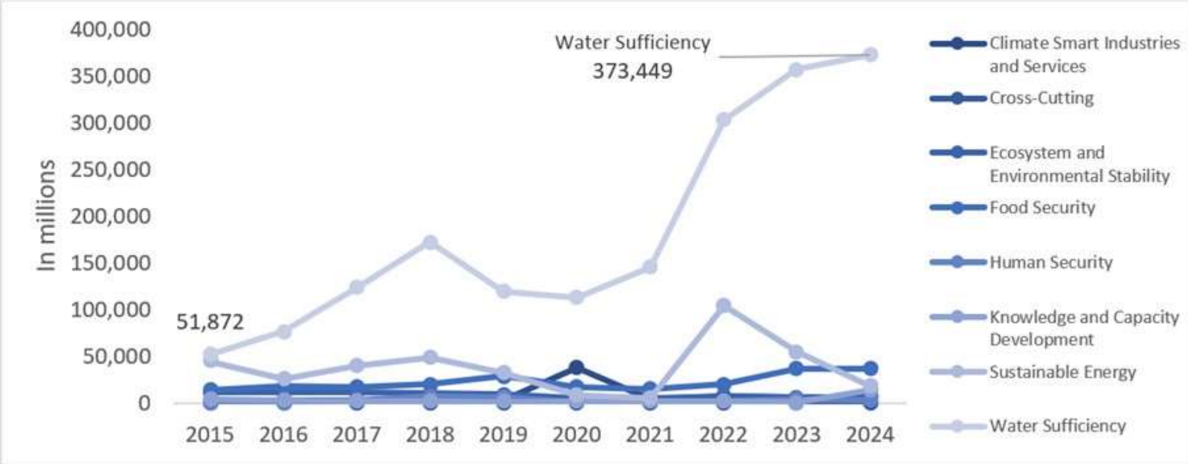
The World Resource Institute projected that the Philippines would face a water shortage in the year 2040[75]. With this, water sufficiency is consistently prioritized as part of the strategic priorities under the NCCAP cornering ₱373.4 billion, or 82.0 percent of the total Climate Change Expenditure budget for

[74] World Bank, Historical Hazards of the Philippines, available at https://climateknowledgeportal.worldbank.org/country/philippines/vulnerability (last accessed March 13, 2024)

[75] See "Impacts to Water Sector and Health" of NICCDIES available at https://niccdies.climate.gov.ph/adaptation/water last accessed on March 13, 2024

FY 2024. The programs and projects under this strategy include streamlining the water governance structure and improving sanitation in infrastructures, among others.

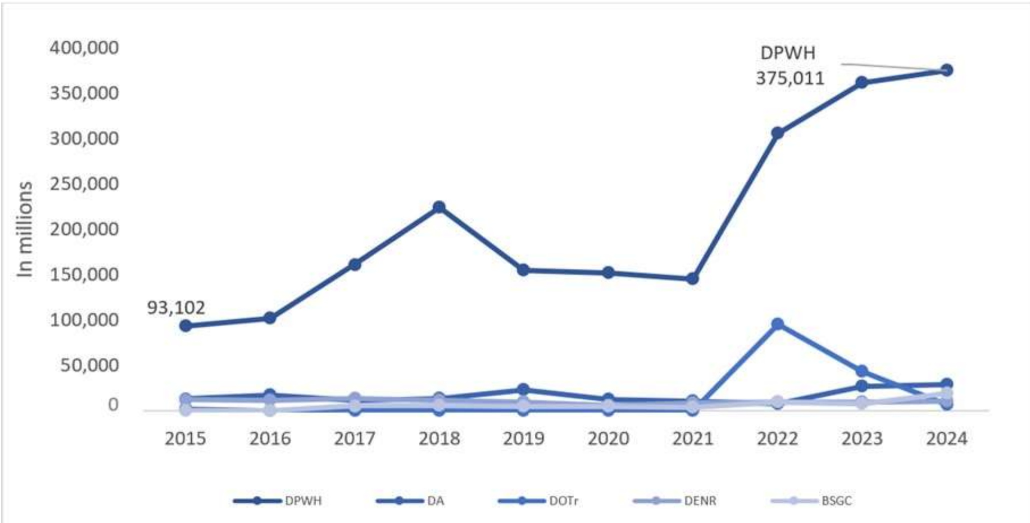
Figure 9. Philippines: Climate Change Expenditure by Strategic Priorities, 2015-2024



Source: BESF Tables on Climate Change Expenditures, By National Climate Change Action Plan (NCCAP) Strategic Priorities
Note: Amounts presented from 2015-2022 are actual obligation levels while from 2023-2024 are GAA levels.

Meanwhile, by department, the DPWH has the highest climate change budget, amounting to ₱375.0 billion in FY 2024 which is mainly for the construction, rehabilitation, and maintenance of various flood mitigation and control structures. Coming in at far second is the DA with ₱29.3 billion, which is mostly allocated for the construction of farm-to-market roads under the food security strategic priority of the NCCAP.

Figure 10. Philippines: Top 5 Agencies with Highest Climate Change Expenditure, 2015-2024



Source: BESF Tables on Climate Change Expenditures, by Department and Special Purpose Fund
Note: Amounts presented from 2015-2022 are actual obligation levels while those from 2023-2024 are GAA levels

129. **PDP 2023-2028, Chapter 15 outlines the strategy framework for climate action and disaster resilience.** This aims to achieve the following outcomes: (a) increase

climate and disaster risk resilience of communities and institutions; (b) increase ecosystem resilience; and (c) enable the transition to a low carbon economy.

Meanwhile, the Philippine Development Report (PDR) 2023[76] released by the National Economic and Development Authority (NEDA) is a forward-looking document that contains a report on the progress and achievement in the implementation of the PDP for FY 2023, as well as the steps forward to keep the government on track in the attainment of goals outlined in the PDP. Relatedly, the results for the assessment of climate action and disaster resilience strategy of the PDP were comprehensively discussed in Chapter 4.2 of the said report.

Disaster-risk and Non-Financial Asset Management

Impacts of Natural and Human-Induced Disasters

130. On a long-term average basis, the Philippines is expected to incur ₱177 billion per year in losses to 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 ₱989 billion and a 20 percent chance of experiencing a loss exceeding ₱1,525 billion.[77]

131. **Tropical Cyclones.** From 2018 to 2023,[78] tropical cyclones were tracked by PAG-ASA. Out of which, thirty-four (34) are categorized as Typhoons while seven (7) are classified as Super Typhoons.[79]

Table 22. Philippines: Annual Tropical Cyclone Tracks (2018-2023)

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	6	6 (3 - Typhoon; 3 Super Typhoon)
2023	7	7(4-Typhoon; 3 Super Typhoon)
Total	**92**	**41 (34 Typhoons; 7 Super Typhoon)**

Source: DOST PAGASA

132. **Cost of Damage due to Tropical Cyclones.** The total cost of disaster events in 2023 amounts to ₱18.06 billion.

Table 23. Philippines: 2023 Cost of Damage Due to Tropical Cyclones
(in pesos)

Disaster Event	Agriculture	Infrastructure	Total
TS Amang	12,341,646.77		12,341,646.77
TS Betty	133,000.00	68,695.58	201,695.58
TS Dodong	210,396,610.04	105,583,418.96	315,980,038
TS Egay and Falcon	6,373,699,117.56	8,933,701,342.24	15,307,400,459.8

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[76] Philippine Development Report 2023 available at https://pdp.neda.gov.ph/pdr-2023/

[77] Philippine Catastrophe Risk Assessment and Modeling (June 2017)

[78] Philippine Atmospheric, Geophysical and Astronomical Services Administration

[79] Philippine Atmospheric, Geophysical and Astronomical Services Administration. (n.d.). Annual Tropical Cyclone Tracks. Information about tropical cyclone.

TS Goring, Hanna and Ineng	1,515,460,935.00	905,696,229.28	2,421,157,164.28
TS Jenny	-	-	-
TS Kabayan	40,000	2,352,000	2,392,000
Total	8,112,071,318.37	9,947,401,686.06	**18,059,473,004.40**

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 14, 2024)
Note: All figures are still subject to change as reports are yet to be finalized.

133. **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 a threat and will likely strain economic activities and resource production, especially in agriculture, fishery, and forestry areas.

134. Based on the climate outlook of PAGASA issued on July 15, 2024[80], the country is under ENSO-neutral conditions. However, transitioning towards La Niña conditions may start from August to September 2024. La Niña will likely continue (81 percent chance) in October to December 2024. This is forecasted to be weak and expected to prevail from January to March 2025.

135. **Geological Hazards: Volcanic Eruptions.** The Philippines is situated at the boundaries of the Philippine Sea Plate and the Eurasian Plate which makes it vulnerable to volcanism and earthquake activity. Currently, the country has 24 active volcanoes, with 13 located in Luzon, 3 situated in Visayas, and 8 located in Mindanao.[81] According to the Philippine Institute of Volcanology and Seismology (PHIVOLCS), Mayon Volcano is at Alert Level 1 (Low Level of Unrest) as of March 5, 2024[82], while Taal Volcano[83] and Bulusan Volcano[84] are at Alert Level 1 (Low-level unrest) as of February 29, 2024.

136. **Geological Hazards: Earthquakes.** From January 2024 to March 2024, seismic events were recorded with various intensities based on the PHIVOLCS Earthquake Intensity Scale. Below are some of the earthquakes monitored by the PHIVOLCS.

Table 20. Philippines: Earthquakes from January 2024 to March 2024 (Magnitude 5 and above)[85]

Date	Mag	Location
January 2024		
Jan 03	5.1	026 km S 70° E of Hinatuan (Surigao Del Sur)
Jan 15	5.0	030 km N 86° E of Hinatuan (Surigao Del Sur)
Jan 17	5.7	030 km N 83° E of Hinatuan (Surigao Del Sur)
Jan 29	5.1	140 km N 78° E of Hinatuan (Surigao Del Sur)
February 2024		
Feb 03	5.4	086 km N 79° E of Lingig (Surigao Del Sur)

80 https://pubfiles.pagasa.dost.gov.ph/pagasaweb/files/climate/seasonalclimateoutlook/Seasonal-Climate-Outlook_JulDec2024-OS.pdf

81 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

82 Philippine Institute of Volcanology and Seismology. (n.d.). Mayon Volcano Summary of 24Hr Observation March 5, 2024 5:00 AM. https://www.phivolcs.dost.gov.ph/index.php/volcano-hazard/volcano-bulletin2/mayon-volcano/17372-mayon- volcano-summary-of-24hr-observation-5-march-2024-5-00-am

83 Philippine Institute of Volcanology and Seismology. (n.d.). Taal Volcano Summary of 24Hr Observation February 29, 2024 5:00 AM.

84 Philippine Institute of Volcanology and Seismology. (n.d.). Bulusan Volcano Summary of 24Hr Observation February 29, 2024 5:00 AM.

85 Philippine Institute of Volcanology and Seismology. (n.d.). Earthquake Information. Phivolcs. https://www.phivolcs.dost.gov.ph/index.php/earthquake/earthquake-information3

Feb 04	5.3	407 km S 29° E of Balut Island (Municipality Of Sarangani) (Davao Occidental)
Feb 06	5.2	018 km S 80° E of Cagwait (Surigao Del Sur)
Feb 07	5.0	098 km S 84° E of Cagwait (Surigao Del Sur)
Feb 07	5.1	094 km S 86° E of Cagwait (Surigao Del Sur)
Feb 07	5.4	010 km N 14° E of Pagudpud (Ilocos Norte)
Feb 10	5.8	007 km S 47° W of Las Nieves (Agusan Del Norte)
Feb 10	5.2	002 km S 35° W of Esperanza (Agusan Del Sur)
Feb 12	5.3	087 km N 79° E of General Luna (Surigao Del Norte)
Feb 25	5.0	025 km S 42° W of Jipapad (Eastern Samar)
Feb. 29	5.3	066 km S 74° E of Cagwait (Surigao Del Sur)
Feb 29	5.4	074 km S 80° E of Cagwait (Surigao Del Sur)
March 2024		
Mar 01	5.4	085 km S 84° E of Cagwait (Surigao Del Sur)
Mar 07	5.0	072 km N 62° E of Baganga (Davao Oriental)
Mar. 8	6.0	138 km S 51° E of Governor Generoso (Davao Oriental)

Source: DOST PAGASA (as of March 13, 2024)

Policies and Institutional Measures and Initiatives

137. 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 cohesively and in a coordinated manner, guided by the whole-of-government and whole-of-society approaches.

138. **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 reduce 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 mitigate 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.

139. **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.

140. **Medium-term Fiscal Framework (MTFF) 2022-2028.** The current administration also introduced the country's first MTFF, which serves as the 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 the tax system, such as:

- Promote efficient tax administration through digitalization
- Put in place measures that will help the 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

This fiscal consolidation strategy will bring down the country's NG 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.

141. **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 government is heavily investing in 197 high-impact, sustainable, and climate-resilient infrastructure projects through a financing mix of domestic resources, official development assistance (ODA), and public-private partnerships (PPP).[86]

142. 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.

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

    - **2024 Allocation for the National Disaster Management Fund (NDRRMF).** The NDRRMF is one of the annually appropriated budgets that covers aid, relief, and rehabilitation services to communities and areas affected by human-induced and natural calamities, as well as the repair and reconstruction of permanent structures, including other capital expenditures for disaster operation, and rehabilitation activities. For FY 2024,[87] Congress approved an allocation of ₱20.5 billion under the NDRRMF. The DBM specifies that the allocation may be used for reconstruction, rehabilitation, and repair of essential infrastructures following natural and human-induced calamities, an additional funding source for the QRF, and ₱1.0 billion for the parametric insurance coverage of government facilities against natural calamities.

    - **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 cities were engaged in several activities such as exposure data collection, needs assessment, and capacity building. Currently, the GSIS, as the project's implementing agency, is conducting consultation with the beneficiary local government units regarding the development of city insurance products to mitigate disaster risks.

[86] Department of Finance (December 27, 2023). DOF leads intensified climate action initiatives in 2023. https://www.dof.gov.ph/dof-leads-intensified-climate-action-initiatives-in-2023/.

[87] Department of Budget and Management. (n.d.). NDRRMF FY 20243. DBM. https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2024/VolumeI/NDRRMF.pdf.

- **Philippine Catastrophe Insurance Facility (PCIF)**. On July 14, 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 that the revised schedule of minimum catastrophe rates shall be observed by all non-life insurance companies and intermediaries and shall apply to all insurance policies covering earthquake, typhoon and flood risks for both new and renewal business, except for risks rated under the motor car tariff.

- **Southeast Asia Disaster Risk Insurance Facility (SEADRIF).** The SEADRIF is designed to be a platform to offer climate and disaster risk financing solutions, responding to the needs of the Association of Southeast Asian Nations (ASEAN) member countries. SEADRIF has been highlighted by ASEAN+3 Finance Ministers and Central Bank Governors as a key initiative to strengthen regional financial resilience. The DOF continues to work with other ASEAN Member States (AMS) to avail SEADRIF's proposed public asset insurance product while taking into consideration the country's own regulatory and institutional policies.

- **Asia Pacific Economic Cooperation (APEC) Working Group on Disaster Risk Financing Solutions**. The Philippines and Japan co-chair the APEC Working Group (WG) 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. For 2024, the WG will conduct the following activities: i) Knowledge Exchange on Disaster Risk Finance for Resilient Infrastructure Workshop, ii) Roundtable discussions on insurance and retirement savings in Asia, iii) Country frameworks for disaster and pandemic risk financing, and iv) Examination of financial protection gaps for disaster risks, among others.

- The program aims to support the country in achieving its Nationally Determined Contribution (NDC) commitments and in its efforts to assist vulnerable sectors in the transition to a resilient, low-carbon economy.[88] The DOF and the ADB are currently finalizing the relevant documents for the program to kick off the implementation.

- **Philippines Disaster Risk Management and Climate Development Policy Loan with a Catastrophe Deferred Drawdown Option (CATDDO V)**. In November 2023, the World Bank (WB) approved a US$500 million (about ₱27.9 billion) development policy loan that the Philippine government can immediately draw upon in times of natural disasters and health crises, mitigating their impact on the economy.[89]

144. **Government Policies to Mitigate the Adverse Effects of El Niño**. Consistent with the PDP 2023-2028 and the National Disaster Risk Reduction and Management Plan (NDRRMP), the societal goal of the National El Niño Adaptation Plan Framework is to increase the resilience of communities to the effects of El Niño. The framework adopts five key sectors, such as water security, food security, energy security, health, and public safety, wherein key interventions are needed.

To mitigate the adverse effects of El Niño, the government is carrying out several policies which include infrastructure improvements such as upgrading and concreting irrigation canals and building solar-powered irrigation systems: distribution of resources such as pumps, engine sets, and planting

[88] Department of Finance (December 27, 2023). DOF leads intensified climate action initiatives in 2023. https://www.dof.gov.ph/dof-leads-intensified-climate-action-initiatives-in-2023/.

[89] Department of Finance (December 27, 2023). DOF leads intensified climate action initiatives in 2023. https://www.dof.gov.ph/dof-leads-intensified-climate-action-initiatives-in-2023/.

materials to farmers; support for the fisheries sector such as modernization of fishing gears, promoting seaweed farming, and establishing fish sanctuaries; and public awareness campaigns, among others.

The El Niño Task Force (ENTF) established under Executive Order No. 53 series of 2024 leads the government's efforts to mitigate the impacts of the 2023 – 2024 El Niño. The task force is composed of the Secretaries of the DND (Chair), DOST (Vice-Chair), DENR, DA, DOH, and NEDA. The following are the interventions implemented by the task force per ENTF Advisory No. 12 dated June 25, 2024:

a. **Water Security.** Interventions include close monitoring of dams, reactivation of standby deep wells, intensive water conservation campaigns, and immediate repair of water supply systems.

b. **Food Security.** Interventions include cloud seeding operations, provision of seed and fertilizers to affected farmers, rehabilitation and improvement of irrigation canals, distribution of water pumps, expedited Philippine Crop Insurance Corporation indemnification for affected farmers, price monitoring of food commodities and provision of alternative livelihoods to affected families.

c. **Health.** The health sector strengthened surveillance of water-related diseases, updated continuity plans of health facilities, established networks of water testing services, and pre-positioned health commodities and water supply.

d. **Energy Security.** Interventions include the promotion of energy efficiency and conservation, endorsement of power generation projects to facilitate timely operations, and intensified promotion of the Demand Side Management (DSM) Program.

e. **Public Safety.** The BFP intensified information campaigns on the impacts of El Niño while the PNP provided security for critical facilities and traffic management support for relief operations in affected areas.

- The Department of Agriculture (DA) has crafted the El Niño Mitigation and Adaptation Plan 2023. It also issued Special Order No. 77 regarding the Composition of the DA - National El Niño Team (DA-NENT) and disseminated IEC materials on the details of the El Niño and its preparatory measures. The interventions of the El Niño Mitigation and Adaptation Plan 2023 include:

  a. Massive information and dissemination to create awareness of the El Nino phenomenon focusing on water-saving technologies and the importance of crop insurance;
  b. Partnering with LGU and civil society on planning and program implementation;
  c. Conduct of regional coordination/meetings/trainings and assessment;
  d. Prepositioning of seed reserves, planting materials, drugs, and biological pesticides;
  e. Provision of seeds and planting materials;
  f. Water management – conduct of cloud seeding operations, provisions of pumps and engine sets, fuel subsidy;
  g. Provision of short gestation/drought tolerant seed varieties, planting materials, fertilizers, soil ameliorants, flower inducers, mulching film, pesticides/herbicides, drugs, and biologics; and

h. Provision of seeds and planting of materials, fertilizers, and buffer seeds resources for livestock and forage.

- In March 2024, the DOF emphasized the importance of proactive measures to mitigate the potential effects of El Niño on inflation through the government's comprehensive Reduce Emerging Inflation Now (REIN) plan. February's inflation rate of 3.4 percent fell within the government's target range but is expected to peak in March and remain elevated until May. To further mitigate the potential effects of El Niño on food security, the DOF is closely monitoring the implementation of strategies under the REIN plan. The government will continue to undertake the following steps[90]:

    a. Prioritize expeditious execution of the 2024 national budget to enhance agricultural production;
    b. Distribute Fertilizer Discount Vouchers (FDVs) to sustain crop production;
    c. Continue exploration of rice trade agreements with India, Vietnam, and Cambodia;
    d. Accelerate implementation of El Niño Mitigation and Adaptation Plan and typhoon responses;
    e. Ensure timely imports of key commodities and combat anti-competitive practices;
    f. Release guidelines for toll rate hike exemption for trucks transporting agricultural goods; and
    g. Implement interventions to moderate non-food inflation, including fuel subsidies and stable electricity supply.

- The DBM has approved the release of ₱455.59 million for the Rice Competitiveness Enhancement Fund (RCEF) for the first quarter of 2024 to fund programs focusing on farm productivity and food security.[91]

h. **Climate Change in the Philippines.** Adaptation continues to be an urgent priority for the Philippines given the substantial losses and damages the country incurs each year from typhoons and other natural disasters. The increasing number and severity of typhoons have further limited the country’s economic development and social protection coverage due to increased appropriations for disaster relief, emergency funds, and insurance premiums, causing a fiscal strain in the country’s budget annually.

i. The Philippines believes it is past the point of merely theorizing about climate change. The lived experience of having an annual intensifying and increasing number of typhoons does not allow for any delay in taking 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 to help local communities, especially the most vulnerable, to the adverse effects of climate change, to cope, and respond to the erratic weather/climate patterns.

j. 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,

[90] https://www.dof.gov.ph/recto-feb-inflation-rate-of-3-4-within-govt-target-band-ph-prepared-to-face-threat-of-el-nino/
[91] Ibid

the state of the present climate emergency and its threat to the daily lives of Filipinos.

- **Grants**: to improve the capacity of local communities in climate-vulnerable areas to implement 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.

- **Investments**: 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.

- **Subsidies**: to support initiatives that lead 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)

k. **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 2024 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.

l. 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 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.

m. **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 in 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 highlighted the strong investor-investee confidence in the national government's commitment to achieving sustainable development and mitigating climate change, notably the pledge to reduce the country's greenhouse gas emissions by 75 percent by 2030.

In October 2022, the ROP issued a new offering of US$2 billion triple-tranche Global Bonds with 5-year, 10.5-year, and 25-year terms. This recent 25-year USD issuance will contribute to the Republic's funding for initiatives under the Sustainable Finance Framework. It aims to attract private sector investments necessary to finance climate change mitigation and adaptation projects in the Philippines. Additionally, the government hopes to draw funds from ESG-conscious investors and bolster the development of the sustainable financing market in the Philippines.

As of March 31, 2023, the total ASEAN-labeled Green, Social, and Sustainability Bonds issued amounted to US$40.14 billion, of which US$10.03 billion or 25 percent were issued by Philippine companies.[92]

n. **Development of the Sustainable Finance Taxonomy Guidelines (SFTG).** On February 14, 2024, the BSP Monetary Board approved the adoption of the Philippines SFTG for banks. The Philippine SFTG was developed under the auspices of the Financial Sector Forum (FSF) following the recommendations in the Philippine Sustainable Finance Roadmap released by the Interagency Technical Working Group for Sustainable Finance (or the Green Force) in October 2021.

The SFTG aims to direct, accelerate, and increase capital flows towards economic activities that promote sustainability objectives, including the reduction of greenhouse gas (GHG) emissions and the building of climate resilience. It likewise promotes transparency and credibility by minimizing the risk of greenwashing and supports a just transition to a sustainable economy.

In addition, it provides a set of guiding questions and decision trees to support banks' assessments. Entities undertaking economic activity should comply, at a minimum, with the Philippine social safeguard requirements. The SFTG also offers a simplified approach for the assessment of MSMEs' activity for financing. This is to ensure that MSMEs are not unduly excluded from participating in sustainable finance.[93]

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[92] Securities and Exchange Commission (March 2023). Sustainable Finance Market Update. https://www.sec.gov.ph/wp-content/uploads/2023/04/2023CM_Sustainable-Finance-Market-Update-as-of-Ma rch-2023_v2.pdf.
[93] https://www.bsp.gov.ph/Regulations/Issuances/2024/1187.pdf

o. **People's Survival Fund (PSF)**. The PSF is a special fund under the national budget, intended for 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 LGUs for climate-change-related programs and projects with an amount of ₱1 billion annually.

In October 2023, the People’s Survival Fund (PSF) Board approved five (5) new climate change adaptation projects and one (1) new Project Development Grant (PDG) worth ₱541 million, which were officially presented by President Ferdinand R. Marcos, Jr. to the LGU beneficiaries namely i) Maramag, Bukidnon, ii) Cabagan, Isabela, iii) Catanauan, Quezon, iv) Borongan, Eastern Samar, and v) Mountain Province in November 2023. The projects included the construction of a Climate Field School, the installation of drainage and early warning systems, flood control measures, irrigation projects, mangrove rehabilitation, and water harvesting structures.

These are in addition to the six (6) initially approved projects under the PSF with a total amount of ₱310.34 million, and the five (5) PDGs granted to Northern Samar LGUs, namely, Bobon, Mondragon, Pambujan, Rosario, and San Jose.

To date, approximately **₱887.63 million out of the ₱1 billion** initial fund of the PSF was allocated to **eleven (11) adaptation projects and six (6) project development grants (PDG),** which is a sub-financing window under the PSF, amounting to ₱2 million for each LGU, to help project proponents in preparing PSF funding proposals based on concept notes approved by the PSF Board, which have the potential for community-level climate change adaptation.

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

- **Loss and Damage Fund Board.** The Parties to the COP 27 of the United Nations Framework Convention on Climate Change (UNFCCC) held in 2022 agreed to establish a loss and damage fund to provide financial assistance to countries impacted by the adverse effects of climate change. The Loss and Damage Fund (LDF) was operationalized during COP 28 in December 2023. The LDF will be governed and administered by a Board composed of 26 members that includes representatives from developed countries, Asia-Pacific States, African States, Latin American and Caribbean States, Small Island Developing States, Least Developed Countries, and a Developed Country not included in the regional groups and constituencies. The Philippines is a representative of the Asia Pacific Group from 2024 until 2026.

  On July 9, 2024, the Philippines was selected as the host country of the Loss and Damage Fund Board (LDFB). The hosting of the LDFB reflects the Philippines' ability and commitment to address the critical issue of global climate action and equity. This presents benefits and opportunities for the country to showcase successful experiences in disaster risk management and financing; gain access to LDF resources; access capacity building and technology transfer programs; and generate direct and indirect benefits to the economy (e.g., increase tourism and business and local employment). To date, the Philippines is enacting a law, as a requirement of the host country, to grant juridical personality and legal capacity to the Board.

- **UNFCCC 28th Conference of Parties (COP28).** During the COP28, the DOF led the discussions relating to the thematic work stream of climate finance which falls under Agenda 8 with sub-agenda items on:

    a. Long-term Climate Finance (LTF);
    b. Matters relating to the Standing Committee on Finance (SCF);
    c. Report of the Green Climate Fund (GCF) to the COP and guidance of the COP to the GCF;
    d. Seventh Review of the Financial Mechanism;
    e. Compilation and synthesis of, and summary report on the in-session workshop of, biennial communications of information related to Article 9 paragraph 5 of the Paris Agreement; and
    f. New Collective Quantified Goal (NCQG) on climate finance.

    To complement the climate negotiations and to further accelerate the provision and mobilization of climate finance, the DOF strategically participated in various climate finance-related events at COP28 such as i) World Bank-hosted Session on Fiscal Policies to Address Climate Change; ii) High-level Dialogue on the Philippines' National Adaptation Plan and Nationally Determined Contribution Implementation Plan; iii) COP28 Finance Day, among others.

- **Green Climate Fund (GCF).** The GCF is a global fund created to serve the UNFCCC[94] 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. In addition, the DOF issues the no objection letter (NOL) to proposals from access entities for submission to the GCF. For FY2023, the DOF issued three (3) NOLs for proposed projects and programs submitted to the GCF.

    On March 16, 2023, the GCF Board approved the DA's proposed full funding proposal entitled "Adapting Philippine Agriculture to Climate Change" (APA Project) with a total project amount of US$39.2 million.

    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, and access to financing. The Project will also increase awareness about climate change, its risks, and its management, towards improving food security, increasing household incomes, and enhancing resilience.

    To date, the Philippines' portfolio with the GCF includes the following: i) Six (6) Readiness Projects and Programmes; ii) Five (5) multi-country funding proposals; iii) One (1) Simple Approval Process (SAP); and One (1) Regular Funding Proposal.

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

- **Vulnerable Twenty (V20) Group**. The V20 Group was established during the inaugural meeting of the V20 Ministers of Finance of the Climate Vulnerable Forum (CVF) on October 8, 2015, in Lima, Peru. The Philippines is currently participating in the High-Level Consultative Group (HLCG)[95] Meetings, V20 Ministerial Dialogues, and V20 Senior Officials Meetings 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).** Through the Green Force, the DOF is currently facilitating 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 the people. Following the development of the Sustainable Finance Roadmap and its Guiding Principles as well as the finalization of the Philippines' National Adaptation Plan and the NDC Implementation Plan (NDCIP), the DOF aims to create a pipeline of projects, activities, and programmes that can facilitate catalytic investments that will support the Philippines NDC and climate change ambitions.

- **Accelerating Climate Investments in the Philippines (ACIP) through the Risk Resiliency Programme (RRP) Pillar III.** The ACIP Project is a technical assistance provided by the World Bank Group in 2019 which aims to strengthen the enabling environment for key adaptation and mitigation investments in the country by fortifying planning and budgeting processes and maximizing private sector involvement. It is a continuation of the former technical assistance grant, namely the Pilot Program for Climate Resilience (PPCR).

  It supported the implementation of necessary reforms to the government's Risk Resiliency Program for strengthening convergent climate adaptation budgeting and for conducting a deeper analysis of needs and practical steps for addressing climate adaptation and mitigation within many key areas.[96]

  The project work packages were derived from various Philippine government agency priorities communicated in the NDC Partnership Plan, which was divided into three Pillars:

    - Pillar 1: Climate Resilient Convergence Planning and Programming;
    - Pillar 2: Mainstreaming Adaptation in key sectors; and
    - Pillar 3: Mobilizing Markets for Green Growth.

  Based on the said TA, potential follow-on activities grouped into three (3) packages were conducted for potential funding under the Partnership for Market Readiness (PMR), Climate Investment Funds (CIF), and Program of Advisory Services and Analytics (PASA). These packages respectively focus on detailing the operation of the Philippines Emissions Trading Scheme (PETS) including offsets and a road map for implementation, engaging with a range of

[95] The HLCG promotes exchange between V20 and G20+ in the Climate and Disaster Risk Financing and Insurance (CDRFI) area.
[96] 08.27-9.13 Aide Memoire

stakeholders including legislators and conducting preliminary assessments of a potential carbon tax and its integration with the PETS.

To date, several coordination meetings have been held together with various government agencies regarding the follow-on support technical assistance from the WB which intends to conduct a study to detail the operation of country-specific and cost-effective Carbon Pricing Instruments (CPI) that will factor in the sectoral context, climate change priorities, and development trajectory of the Philippines. The TA will also explore complementarities between the possible implementation of the Emissions Trading Scheme (ETS) and carbon tax in the Philippines. The WB intends to conclude the study and submit a recommendation to the DOF regarding the appropriate CPI mechanism for the Philippines by June 2024.

In parallel with the ongoing efforts regarding the development of the carbon market in the Philippines, the Department of Environment and Natural Resources (DENR) in partnership with the United Nations Development Programme (UNDP) and the Asian Development Bank (ADB) is working on the establishment of the regulatory framework for carbon trading and offsetting in the country and formulation of a roadmap for enhancing the government's readiness for carbon finance; and establishing a comprehensive national framework for Integrating Article 6 of the Paris Agreement in the Philippines' Nationally Determined Contributions, respectively.

To further the development of CPI in the Philippines, the DOF and the WB are exploring a new TA to build on the outcome of the initial study. This will include (i) support for the development of the Voluntary carbon market (VCM) and Article 6 markets strategy; (ii) development of the monitoring, reporting, and verification (MRV) system and national registry; and (iii) consideration of the domestic offsets scheme, among others.

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

  To facilitate a more productive state-society as well as mutually respectful and beneficial interaction around climate action, the UNDP calls for a collaborative engagement with civil society organizations (CSOs) on climate action. This contributes to the CFN's work streams on access to climate finance, gender and social inclusion, and transparency and accountability. CSOs are seen in this process as key possible partners of relevant government institutions to fill in the existing gaps and provide innovative, practical solutions to enable climate action.

- **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 towards resilient and low-emission development that sustains nature and ecosystems and protects the rights of all those affected and at risk. The project is under implementation.

ANNEX

Annex A. Public DSA - Baseline Scenario

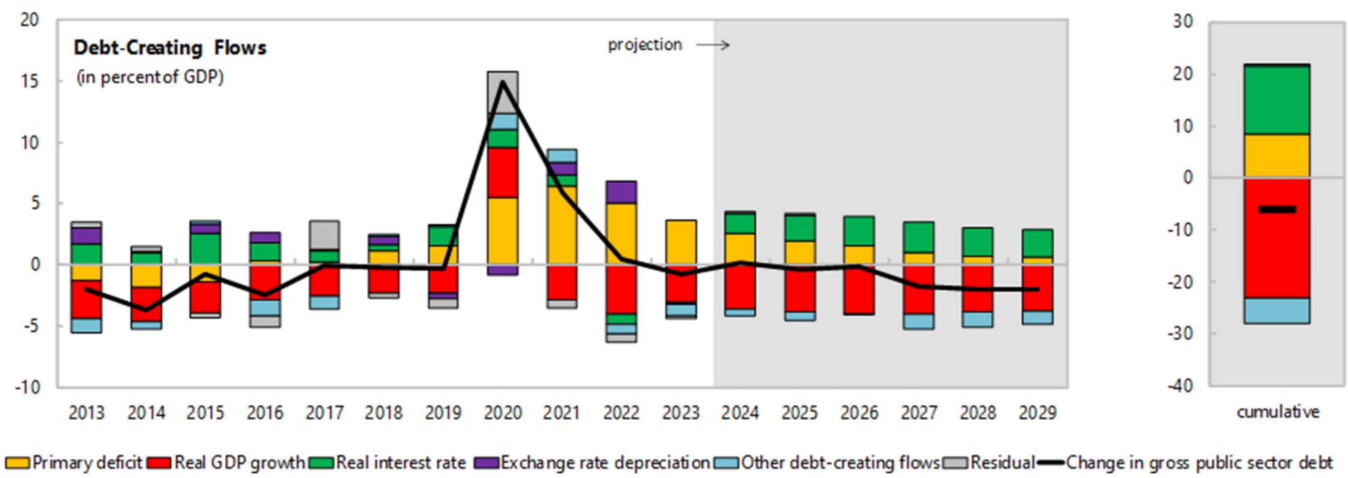
Debt, Economic and Market Indicators [1/]

	Actual			Projections					
	2013-2021 [2/]	2022	2023	2024	2025	2026	2027	2028	2029
Nominal gross public debt	45.4	60.9	60.2	60.3	59.9	59.8	58.1	56.1	54.1
Public gross financing needs	6.3	10.9	10.2	10.7	11.4	9.8	10.3	10.0	10.1
Real GDP growth (in percent)	4.7	7.6	5.6	6.5	7.0	7.3	7.3	7.3	7.3
Inflation (GDP deflator, in percent)	1.8	5.5	4.5	2.4	1.9	1.3	1.1	1.2	1.2
Nominal GDP growth (in percent)	6.6	13.5	10.3	9.0	9.0	8.7	8.4	8.5	8.5
Effective interest rate (in percent) [4/]	5.2	4.3	4.7	5.5	5.8	5.7	5.6	5.6	5.6

As of March 08, 2024		
Sovereign Spreads		
Bond Spread (bp) 3/		87
5Y CDS (bp)		59
Ratings	Foreign	Local
Moody's	Baa2	Baa2
S&Ps	BBB+	BBB+
Fitch	BBB	BBB

Contribution to Changes in Public Debt

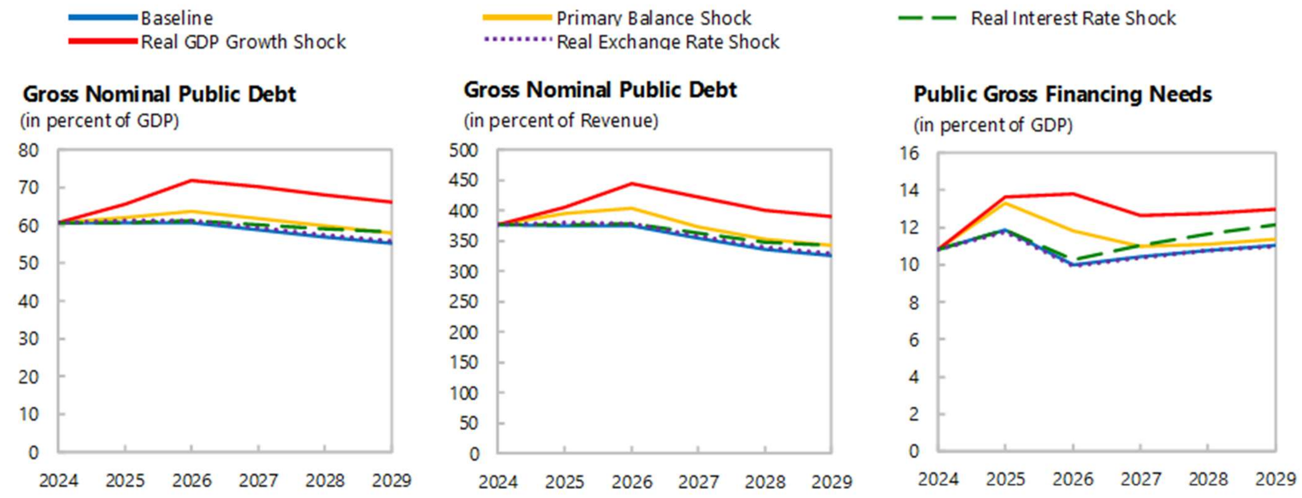
	Actual			Projections							
	2013-2021	2022	2023	2024	2025	2026	2027	2028	2029	cumulative	debt-stabilizing primary balance [9/]
Change in gross public sector debt	1.3	0.5	-0.8	0.1	-0.4	-0.1	-1.7	-2.0	-2.0	-6.1	-2.6
Identified debt-creating flows	0.9	1.2	-0.5	0.0	-0.5	-0.1	-1.7	-2.0	-2.0	-6.4	
Primary deficit	1.2	5.0	3.6	2.6	2.0	1.6	1.0	0.7	0.6	8.5	
Primary (noninterest) revenue and grants	15.1	16.1	15.7	16.1	15.9	15.8	16.1	16.5	16.5	96.9	
Primary (noninterest) expenditure	16.3	21.1	19.4	18.7	17.8	17.4	17.2	17.2	17.1	105.3	
Automatic debt dynamics [5/]	-0.2	-3.1	-3.3	-2.0	-1.8	-1.6	-1.5	-1.6	-1.5	-10.0	
Interest rate/growth differential [6/]	-0.5	-4.9	-3.1	-2.0	-1.8	-1.6	-1.5	-1.6	-1.5	-10.0	
Of which: real interest rate	1.4	-0.9	0.0	1.6	2.1	2.4	2.5	2.3	2.3	13.1	
Of which: real GDP growth	-1.9	-4.0	-3.1	-3.6	-3.9	-4.0	-4.0	-3.9	-3.7	-23.1	
Exchange rate depreciation [7/]	0.4	1.8	-0.2	...	...	...	...	...	...	...	
Other identified debt-creating flows	-0.1	-0.7	-0.9	-0.6	-0.7	-0.1	-1.2	-1.2	-1.1	-4.9	
Residual, including asset changes [8/]	0.4	-0.7	-0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.3	



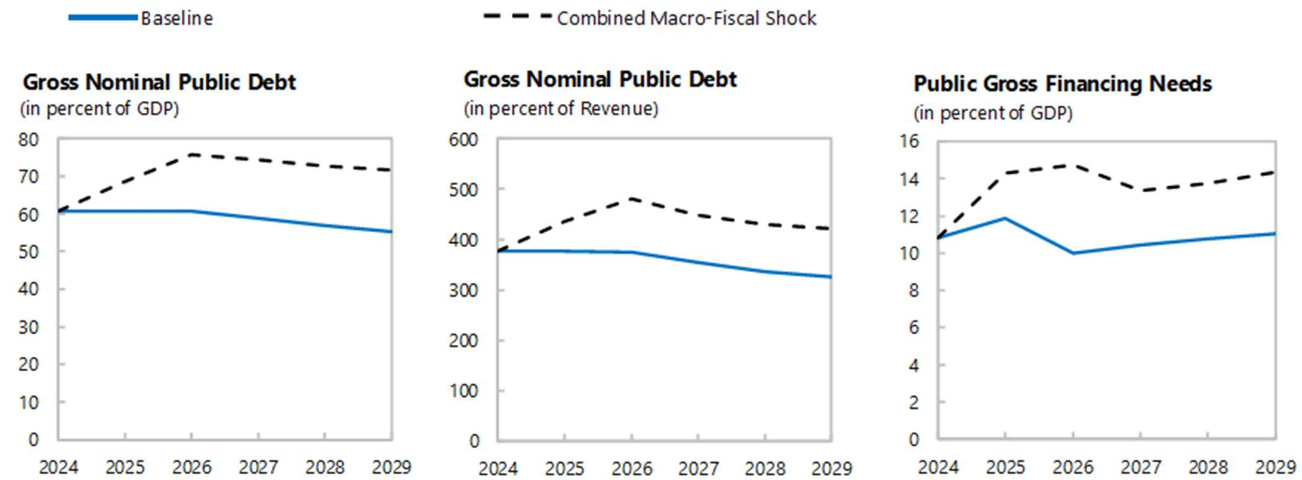
Source: IMF staff for the analytical framework, BTr staff estimates.
1/ Public Sector is defined as central government.
2/ Based on available data.
3/ Long-term bond spread over U.S. bonds (bp).
4/ Defines as interest payments divided by debt stock (excluding guarantees) at the end of previous years.
5/ Derived as [r - п (1+g) - g + ae(1 + r)]/(1 + g+п+gп) times previous debt ratio, with r = effective nominal interest rate; п = growth rate of GDP growth rate; a= share of foreign-currency denominated debt; and e = nominal exchange rate depreciation (measured by increase in
local currency value of U.S. dollar)
6/ The real interest rate contribution is derived from the numerator in footnote 5 as r - п (1-g) and the real growth contribution as -g.
7/ The exchange rate contribution is derived from the numerator in footnote 5 as ae(1+r).
8/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.
9/ Assumes that key variables (real GDP growth, real interest rates, and other identified debt-creating flows) remain at the level of the last projection year.

Annex B. Public DSA - Stress Tests

Macro-Fiscal Stress Tests



Additional Stress Tests



Underlying Assumptions
(in percent)

Primary Balance Shock	2024	2025	2026	2027	2028	2029
Real GDP growth	6.0	6.5	6.5	6.5	6.5	6.5
Inflation	2.9	1.9	2.0	2.0	2.0	2.0
Primary balance	-2.6	-3.7	-3.1	-1.0	-0.7	-0.8
Effective interest rate	5.6	5.9	6.0	5.9	6.0	5.9
Real Interest Rate Shock						
Real GDP growth	6.0	6.2	6.2	6.2	6.2	6.2
Inflation	2.9	1.9	1.9	1.7	1.8	1.9
Primary balance	-2.6	-2.2	-1.6	-1.0	-0.7	-0.8
Effective interest rate	5.6	5.9	6.4	6.6	6.9	7.2
Combined Shock						
Real GDP growth	6.0	1.4	1.4	6.2	6.2	6.2
Inflation	2.9	0.6	0.7	1.7	1.8	1.9
Primary balance	-2.6	-3.9	-4.4	-1.0	-0.7	-0.8
Effective interest rate	5.6	6.1	6.4	6.6	7.0	7.2

Real GDP Growth Shock	2024	2025	2026	2027	2028	2029
Real GDP growth	6.0	1.4	1.4	6.5	6.5	6.5
Inflation	2.9	0.6	0.7	2.0	2.0	2.0
Primary balance	-2.6	-3.4	-3.9	-1.0	-0.7	-0.8
Effective interest rate	5.6	5.9	6.1	6.4	6.4	6.3
Real Exchange Rate Shock						
Real GDP growth	6.0	6.5	6.5	6.5	6.5	6.5
Inflation	2.9	5.1	2.0	2.0	2.0	2.0
Primary balance	-2.6	-2.2	-1.6	-1.0	-0.7	-0.8
Effective interest rate	5.6	6.1	5.9	5.8	5.9	5.8

Source: IMF staff for the analytical framework, BTr staff estimates.

Annex C. Foreign Currency Commercial Bond Issuances

Instrument	Issuances	Accomplishment(s)
Samurai bonds	**Aug. 2018:** 154.2 billion JPY (3-,5,-,10-year) **Aug. 2019:** 92.0 billion JPY (3-,5-,7-,10-year) **Mar. 2021:** 55.0 billion JPY (3-year) **Apr. 2022:** 70.1 billion JPY (5-,7-,10-,20-year)	The ROP returned to the Samurai market after 8 years in Aug. 2018. In Mar. 2021, the ROP launched the first-ever zero-coupon bond in the Samurai market. The new 3-year tranche was priced at 21 bps above the benchmark, the tightest spread achieved by the ROP since its return in 2018. In Apr. 2022, the ROP issued the first-ever ESG Samurai bonds, capturing new investors in support of the country's climate change initiatives and deepening the local capital markets
Euro-denominated bonds	**May 2019:** 750.0 million EUR (8-year) **Feb. 2020:** 1.2 billion EUR (3-,9-year) **Apr. 2021:** 2.1 billion EUR (4-,12-,20-year)	The ROP returned to the European market after 13 years in May 2019, raising a benchmark-sized 8-year bond. In Feb. 2020, the ROP had its lowest coupon Euro-denominated security. It was also the first-ever zero-coupon euro bond in the international capital markets.
Panda bonds	**Mar. 2018:** 1.5 billion RMB (3-year) **May 2019:** 2.5 billion RMB (3-year)	In Mar. 2018, the ROP debuted in the Panda market as the first ASEAN member to issue Panda securities.
U.S. dollar bonds	**Apr. 2020:** 2.4 billion USD (10-,25-year) **Jun. 2021:** 3.0 billion USD (10.5-, 25-year) **Oct. 2021:** 1.6 billion USD (5-,10-year) **Mar. 2022:** 2.3 billion USD (5-,10.5-,25-year) **Oct. 2022:** 2.0 billion USD (5-,10.5-,25-year) **Jan. 2023:** 3.0 billion USD (5.5-,10.5-,25-year) **Oct. 2023:** 1.3 billion USD (5.5-year) **May 2024:** 2.0 billion USD	The ROP was the first sovereign globally to price syndicated benchmark tranche with zero new issue premium during the COVID-19 crisis in Apr. 2020. In Jun. 2021, the ROP issued its largest dual-tranche global bond in history. The ROP successfully raised its first-ever retail onshore onshore dollar bonds in Oct. 2021. This was followed by another issuance in Oct. 2023, with the final withholding tax assumed by the NG.

	(10-,25-year)	The ROP also benefitted from the ESG label by garnering a massive order book multiple times the initial offer. The Mar. 2022 issuance marked the first ESG issuance via the 25-year tranche. The Jan. 2023 and May 2024 issuances also recorded an aggressive tightening in sovereign spreads, with the May 2024 transaction even pricing the bonds at just 80 to 100 bps above the benchmark.
Sukuk	**Dec. 2023:** 1.0 billion USD (5-year)	The ROP's maiden Sukuk issuance successfully achieved its price, size, and diversification objectives, with around a third of the final allocation size placed to Middle Eastern and Islamic investors.

Source: BTr

Annex D. List of PPP Contracts as of Q1 2023

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

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