INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/36

# PHILIPPINES

## 2019 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

February 2020

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the Philippines, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on a lapse of time basis, following discussions that ended on November 18, 2019, with the officials of the Philippines on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 9, 2020.
- An **Informational Annex** prepared by the IMF staff.

The documents listed below will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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COMMUNICATIONS DEPARTMENT

Press Release No. 20/35
FOR IMMEDIATE RELEASE
February 6, 2020

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

**IMF Executive Board Concludes 2019 Article IV Consultation with the Philippines**

On January 27, 2020, the Executive Board of the International Monetary Fund (IMF) concluded the 2019 Article IV consultation[1] with the Philippines, and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.[2]

The Philippine economy continues to perform well. Economic growth regained momentum in the second half of 2019, following a brief slowdown in the first half of the year. The latter primarily reflected some temporary government underspending, combined with external trade uncertainty and a decisive monetary policy tightening in response to the inflation spike and overheating risks in 2018. Inflation declined through much of 2019, driven by lower food and energy inflation, before rebounding to 2.5 percent in December 2019. Bank lending growth has also slowed in the first half of 2019, amid increased lending rates and the dampening effect on aggregate demand of the temporary fiscal contraction, but it has stabilized at around 10.5 percent in September 2019.

The current account deficit is expected to have declined to 1.6 percent of GDP in 2019, down from 2.6 percent in 2018, mainly reflecting weaker imports of goods. Gross international reserves reached US$87.9 billion as of end-2019, or about 200 percent of the IMF's reserve adequacy metric, against the backdrop of sustained portfolio inflows since late 2018. Based on staff's preliminary estimates, the 2019 external position is assessed as being in line with medium-term fundamentals and desirable policy settings.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

The outlook is positive. GDP growth is projected to have reached 5.7 percent in 2019[3] and rise to 6.3 percent in 2020, underpinned by government spending acceleration and the recent monetary policy easing. Inflation is projected at 3.0 percent by end-2020, accompanied by a slight widening of the current account deficit to 2.3 percent of GDP in 2020 as investment picks up. Risks to the outlook are to the downside, reflecting risks to the global economy from augmented trade tensions, shifts in global financial conditions, and natural disasters.

The structural reform momentum and infrastructure push remain strong. Several landmark reform bills have been signed into law recently, including rice tariffication, a national digital ID, the ease of doing business, and BSP charter amendments. The government has also revised the list of priority flagship infrastructure projects based on feasibility and cost-benefit considerations, with the objective of raising infrastructure investment to over 6 percent of GDP by 2022.

**Executive Board Assessment**

In concluding the 2019 Article IV consultation with the Philippines, Executive Directors endorsed the staff's appraisal, as follows:

The Philippine economy continues to be a strong performer despite recent headwinds but faces downside risks to the outlook. Prudent policies and structural reforms have supported economic activity and macroeconomic stability over the past decade. Real GDP growth has regained momentum in the second half of 2019 after a short-lived slowing and is projected to firm up further in 2020, underpinned by government spending acceleration and the recent monetary easing. The risks to the outlook are tilted to the downside, however, reflecting higher risks from global trade tensions, shifts in global financial conditions, and natural disasters.

Macroeconomic policies are attuned to the outlook. The moderate fiscal stimulus planned for 2020 and the monetary policy easing since mid-2019 are consistent with the economy moving back to growing at capacity and achieving the inflation objectives in the baseline outlook.

The Philippines has policy space and could adopt a more expansionary macroeconomic policy stance should downside risks materialize. Under these adverse risk scenarios, fiscal stimulus should be prioritized toward public capital and social spending programs. The Bangko Sentral ng Pilipinas (BSP) also has substantial space to lower its policy rate if downside surprises materialize.

[3] The projections for the Article IV consultation were completed before the release of the 2019 annual national account data.

The 2019 external position is, based on preliminary estimates, assessed to be broadly in line with medium-term fundamentals and desirable policy settings. Nonetheless, the recent rise in portfolio and other volatile capital inflows amid declining household saving should be monitored closely. The exchange rate should remain a primary shock absorber against external shocks. Publishing FX intervention data could be considered, with appropriate lags and aggregation to guard against market sensitivities.

Closing the infrastructure gap would require further reform efforts. Enhancing public investment management, including by promoting greater competition and allowing easier public access to information in the procurement process, would enable the planned increase in the infrastructure investment enveloped and contribute to its timely and cost-effective implementation, and also reduce incidence of corruption. The planned tax incentive reform would make the regime more accountable and effective in encouraging investment and job creation.

The macroprudential policy response should be proactive if risks of and from high credit growth increase again. The BSP should timely activate the Countercyclical capital buffer (CCyB) if risks of broad-based rapid credit growth reemerge, develop targeted macroprudential measures, such as loan-to-value and debt-to-income caps, and tighten them if high credit growth risks are more sector-specific—for example, in the real estate sector.

Building on the progress in recent years, bolder implementation efforts would help the strong structural reform momentum bear fruit. Strengthening the capacity of the public administration, advancing with the ease of doing reforms, and continuing with the infrastructure push will be central in this respect. The reform agenda could be reinforced by further lifting restrictions on foreign direct investment, broadening the scope of poverty reduction efforts, mobilizing more resources for climate change adaptation and mitigation, robust implementation of the AML/CFT regime, and easing the stringent bank secrecy law.

## Philippines: Selected Economic Indicators, 2015–2020

| | 2015 | 2016 | 2017 | 2018 | 2019 Proj. | 2020 Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National account | | | | | | |
| Real GDP | 6.1 | 6.9 | 6.7 | 6.2 | 5.7 | 6.3 |
| Consumption | 6.5 | 7.4 | 5.9 | 6.5 | 6.5 | 6.6 |
| Private | 6.3 | 7.1 | 5.9 | 5.6 | 5.9 | 6.2 |
| Public | 7.6 | 9.0 | 6.2 | 13.0 | 10.0 | 9.3 |
| Gross fixed capital formation | 16.9 | 26.1 | 9.4 | 12.9 | 5.3 | 15.6 |
| Domestic demand | 8.7 | 11.7 | 6.8 | 8.2 | 6.1 | 9.1 |
| Net exports (contribution to growth) | -3.1 | -4.9 | -0.7 | -2.8 | -1.1 | -3.8 |
| Real GDP per capita | 4.3 | 5.1 | 5.0 | 4.6 | 4.0 | 4.6 |
| Output gap (percent, +=above potential) | -0.3 | 0.1 | 0.4 | 0.2 | -0.2 | -0.1 |
| Labor market | | | | | | |
| Unemployment rate (percent of labor force) | 6.3 | 5.5 | 5.7 | 5.3 | 5.2 | 5.1 |
| Underemployment rate (percent of employed persons) | 18.6 | 18.3 | 16.1 | 16.4 | 14.0 | ... |
| Employment (percent change) | 2.8 | 4.7 | -1.6 | 2.0 | 2.4 | 2.5 |
| Non-agriculture daily wages (Q4/Q4) 1/ | 3.2 | 2.1 | 4.3 | 4.9 | 0.0 | ... |
| Price | | | | | | |
| Consumer prices (period average, 2012 basket) | 0.7 | 1.3 | 2.9 | 5.2 | 2.5 | 2.6 |
| Consumer prices (end of period, 2012 basket) | 0.7 | 2.2 | 2.9 | 5.1 | 2.5 | 3.0 |
| Core consumer prices (period average, 2012 basket) | 1.1 | 1.5 | 2.5 | 4.1 | 3.2 | ... |
| Residential real estate (Q4/Q4) 2/ | ... | 3.3 | 5.7 | 0.6 | 10.4 | ... |
| Money and credit | | | | | | |
| 3-month PHIREF rate (percent, end of period) 3/ | 2.7 | 2.0 | 3.3 | 6.5 | 3.1 | ... |
| Claims on private sector (percent of GDP) | 41.8 | 44.8 | 47.8 | 49.9 | 50.7 | 52.6 |
| Claims on private sector (percent change) | 12.4 | 16.4 | 16.4 | 15.1 | 8.6 | 13.2 |
| Public finances (in percent of GDP) | | | | | | |
| National government overall balance 4/ | -0.9 | -2.4 | -2.2 | -3.3 | -2.7 | -3.2 |
| Revenue and grants | 15.8 | 15.2 | 15.6 | 16.3 | 16.5 | 16.7 |
| Total expenditure and net lending | 16.7 | 17.6 | 17.9 | 19.6 | 19.2 | 19.9 |
| General government gross debt | 41.5 | 39.0 | 39.9 | 38.9 | 38.9 | 38.9 |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account balance | 2.5 | -0.4 | -0.7 | -2.6 | -1.6 | -2.3 |
| FDI, net | 0.0 | -1.9 | -2.2 | -1.8 | -1.4 | -1.4 |
| Gross reserves (US$ billions) | 80.7 | 80.7 | 81.6 | 79.2 | 85.6 | 85.0 |
| Gross reserves (percent of short-term debt, residual maturity) | 409.5 | 418.2 | 419.3 | 369.7 | 402.2 | 385.0 |
| Total external debt | 26.5 | 24.5 | 23.3 | 23.9 | 23.6 | 22.4 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 292.8 | 304.9 | 313.6 | 330.9 | 365.0 | 399.7 |
| Nominal GDP per capita (US$) | 2,883 | 2,953 | 2,989 | 3,104 | 3,370 | 3,632 |
| GDP (in billions of pesos) | 13,322 | 14,480 | 15,808 | 17,426 | 18,614 | 20,302 |
| Real effective exchange rate (2005=100) | 111.4 | 108.2 | 103.4 | 100.5 | ... | ... |
| Peso per U.S. dollar (period average) | 45.5 | 47.5 | 50.4 | 52.7 | 51.8 | ... |

Sources: Philippine authorities; World Bank; and IMF staff estimates and projections.

1/ In National Capital Region.
2/ Latest observation as of 2019:Q3.
3/ Benchmark rate for the peso floating leg of a 3-month interest rate swap.

4/ IMF definition. Excludes privatization receipts and includes deficit from restructuring of the previous Central Bank-Board of Liquidators.

INTERNATIONAL MONETARY FUND

# PHILIPPINES

## STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

January 9, 2020

## KEY ISSUES

**Context**: Economic performance remains strong. Growth regained momentum in the second half of 2019 following a slowdown in the first half. The latter primarily reflected budgetary developments, with some temporary government underspending in the early part of the year. A decisive monetary policy tightening in response to the inflation spike and overheating risks in 2018, and weaker external demand also contributed. The structural reform momentum and infrastructure push remain strong.

**Outlook and risks**: GDP growth is projected to rise further in the near term, underpinned by government spending acceleration and the recent monetary policy easing. Risks to the outlook are to the downside, reflecting risks to the global economy from increased trade tensions, shifts in global financial conditions, and natural disasters.

**Mission focus**: The discussions focused on macroeconomic policies to keep the economy close to balance under the baseline outlook and risk scenarios; strategies for macroprudential policies to address risks from a potential renewed acceleration in credit growth; and policies and reforms to foster stronger and inclusive growth.

**Policy recommendations**:

- The current macroeconomic policy settings are appropriate to keep the economy close to balance in the near term. The authorities have the space to respond with a more expansionary policy stance should downside risks materialize.
- Enhancing public investment management, including by making the procurement process more competitive, will be essential when accelerating the infrastructure push.
- A proactive macroprudential response will help to address systemic financial risks if risks of and from high credit growth should increase again. An update of the macroprudential tool kit would facilitate such a response.
- Bolder implementation efforts are needed for the strong structural reform momentum to bear fruit. The policy agenda could be reinforced by further liberalizing FDI, advancing the ease of doing business reforms, mobilizing more resources for climate change adaptation and mitigation, and easing the bank secrecy law.

Approved By
**Odd Per Brekk and Rupa Duttagupta**

Mission dates: November 5–18, 2019
The mission comprised Thomas Helbling (head), Eugenio Cerutti, Minsuk Kim, Si Guo, and Narin Kruy (all APD). Yongzheng Yang (Resident Representative) and his staff supported the mission. Alisara Mahasandana (Executive Director), Zeno Abenoja (Senior Advisor, OED), and Odd Per Brekk (APD) joined some of the meetings. Jon Frost (BIS), Agnes Isnawangsih (APD), Jermy Premio (BIS), Cristel Arriola, Ana Fuentes, and Nong Jotikasthira (all APD) also collaborated in preparing this report.

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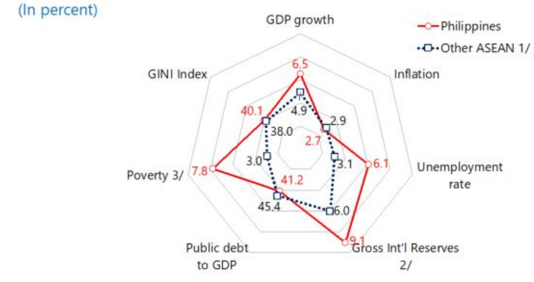
**APPENDICES**

# CONTEXT

1. **The Philippines has been one of the best-performing economies in the region, but socioeconomic challenges remain**. Sustained reforms and prudent macroeconomic policies have supported strong GDP growth and macroeconomic stability, while helping to contain external and macro-financial vulnerabilities. However, while poverty and inequality have declined, they remain high, and the ease of doing business suffers from capacity and other constraints. The authorities' socioeconomic policy agenda—which focuses on infrastructure, education, and health—seeks to address these challenges, while also setting the stage for higher economic growth.

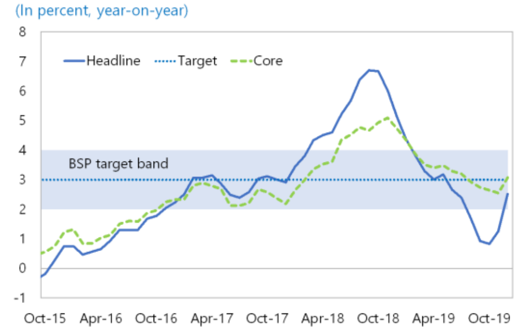
**Philippines: Economic Performance, 2013–2018**
(In percent)




Sources: World Bank, *World Development Indicators* database; and IMF staff estimates.
1/ Simple average of Indonesia, Malaysia, Thailand, and Vietnam.
2/ In months of upcoming imports
3/ Poverty headcount ratio at $1.90 a day (2011 PPP) (% of population).

2. **The economy faced supply shocks and overheating risks in 2018**. Headline and core inflation rose sharply above the inflation target in 2018. While the rise was largely driven by food and energy prices, it was also a symptom of demand pressures after a strong fiscal impulse and expansionary monetary policy, as were high credit growth and a widening current account deficit. The authorities responded with a series of interest rate increases and structural reforms—notably the enactment of the rice tariffication law[1] and strengthening of the operational monetary policy framework—to address the situation.

**Inflation and Inflation Target**
(In percent, year-on-year)




Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

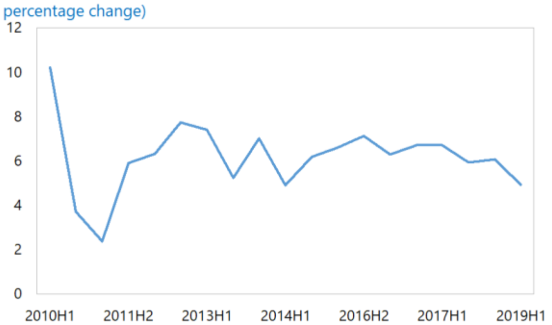
# RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

3. **Economic growth first lost and then regained momentum in 2019, mainly reflecting budgetary developments**. A substantial delay in the budget approval by Congress, together with the usual 45-day ban on new government projects ahead of the May 2019 mid-term elections, led to lower government spending and interruptions in infrastructure investment in the first half of 2019. The monetary policy tightening in the second half of 2018 and external trade uncertainty had further dampening effects on private investment, especially in equipment. As a result, real GDP growth declined from 6.3 percent in 2018:H2 (s.a.a.r.) to 4.5 percent in the first half of 2019 and

[1] In 2019, the Philippines passed a law introducing tariffs on rice, replacing a quota system for which the grace period under WTO obligation had expired in 2014.

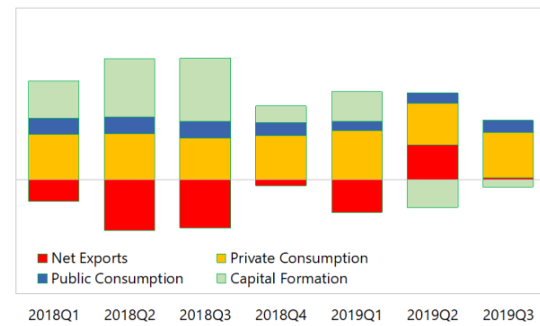
subsequently rose to 6.6 percent in 2018:Q3 (q/q, s.a.a.r.), mainly driven by an acceleration in government spending to catch up with spending targets by year-end. (Figure 1).

**Real GDP Growth**
(Compared to previous half year, seasonally adjusted, annualized, percentage change)




Sources: Data provided by the authorities; and IMF staff estimates.

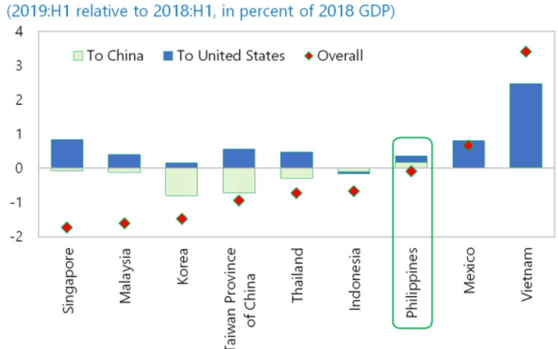
**Contribution to GDP Growth**
(In percent, year-on-year)




Sources: Philippine Statistics Offices; and IMF staff estimates.

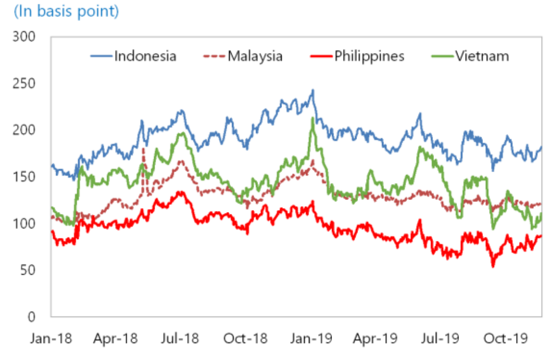
**4. The impact of external headwinds and slowing global growth has been more benign in the Philippines compared to other economies in the region**. Merchandise exports in particular have remained broadly stable in the first half of 2019. The more benign impact reflects the country’s lower trade integration, including in global value chains, and lower exposure to merchandise export categories that, globally, declined the most over the past year or so (e.g., cars and parts).[2] Capital inflows have increased since late 2018, and EMBIG spreads have been declining steadily below 2018 levels.

**Change in Exports**
(2019:H1 relative to 2018:H1, in percent of 2018 GDP)




Sources: Haver Analytics; and IMF staff estimates.

**Selected Asian Economies: EMBIG Spread**
(In basis point)




Sources: Bloomberg L.P.; and IMF staff estimates.

**5. Inflation declined through much of 2019**. After peaking at close to 7 percent in October 2018, inflation declined through October 2019 (Figure 2). Much of the decline has been driven by a reversal in food and beverages inflation—which had risen in 2018 because of supply-side factors and higher excise tax rates—and lower energy inflation. In the disinflation process, headline inflation has undershot the target range, but core inflation has remained close to the

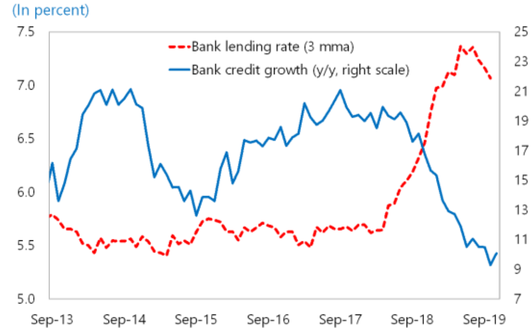
[2] See “Philippines’ Exports of Goods in a Context of Global Trade Tensions,” Selected Issues.

midpoint. More recently, headline inflation has started to increase again—reaching 1.3 percent in November 2019—as the impact of earlier declines (base effect) is waning.

6. **Credit growth has slowed**. The deceleration from 19.2 percent in 2018:H1 (y/y) to 10.5 percent in September 2019 reflected higher lending rates after the monetary policy tightening, with the average lending rates 1.2 percentage points above mid-2018 levels, and the dampening effect on aggregate demand of the unexpected fiscal contraction. Bank performance continues to be solid. Asset quality remains strong, despite a recent small uptick in nonperforming loans to 2.2 percent in September 2019, while liquidity coverage and capital adequacy ratios have improved (Figures 3 and 4).

7. **The outlook is for growth to strengthen further**. Under the baseline, GDP growth is projected to reach 5.7 percent in 2019 and 6.3 percent in 2020. Besides the recent monetary policy easing and more benign external financial conditions, activity will be supported by increased government spending, in line with revised budget targets in 2020 and beyond (see below). Under these projections, the small negative output gap that has emerged with the slowing in economic activity in 2019:H1 will narrow in 2020 and be closed by 2021. Inflation is projected at 2.5 percent by end-2019, before rising to the mid-point of the 2–4 percent inflation target range in 2020. With the ongoing reform efforts and the infrastructure push, private investment is projected to accelerate, leading to higher medium-term growth of around 6.5 percent. The current account deficit is expected to narrow by 1 percentage point to 1.6 percent of GDP in 2019, mainly due to lower infrastructure-related imports, before widening to 2.3 percent in 2020 as investment picks up.

**Bank Credit and Lending Rate**
(In percent)




Sources: Haver Analytics; and IMF staff estimates.

8. **Risks to the outlook are tilted to the downside**. The rebound in GDP growth in the near term could be weaker than expected, as the impact of higher government spending could be offset by a decline in exports and lower investment if downside risks to global growth from trade tensions materialized or the impact of trade-related policy uncertainty was larger. It could also be weaker if the increase in public investment spending fell short of targets Financial conditions in emerging markets could tighten again, with higher capital inflow volatility. Risks from natural disaster and climate change are significant in the Philippines, which is categorized as

**Top 10 Countries with Natural Hazard and Climate Risk 1/**
(Ranking 1 to 10; 1 means the most vulnerable)


Sources: INFORM Global Risk Index 2019; Global Climate Risk Index 2019; UN-World Risk Index.
1/ Natural Hazard Risk Index is based physical exposure to natural hazards (actual and relative); Climate Risk Index is based on to what extent countries and regions have been affected by impacts of weather-related loss events. UN Natural Disaster Risk Index is based on theNatural Disaster vulnerability, susceptibility, lack of coping capacities and lack of adaptive capacities.

one of the world's most vulnerable countries to climate change.[3] On the upside, the relocation of global value chains and trade relations could provide the Philippines—which counts the U.S. and China among its most important export markets—an opportunity to improve its place in the global production matrix, supported by structural reforms and infrastructure improvements (Appendix I and Figure 5).

***Authorities' Views***

**9. The authorities expect growth to remain at 6 percent or above, and to be rising in the medium term**. They concur with staff that the ongoing increase in government spending, especially on infrastructure projects, and the recent monetary policy easing will be the main growth drivers in the near term. The authorities expect growth to rise more than projected by IMF staff, based on a faster increase in spending and rapid reform implementation—6½ percent in 2020 and 6½ to 7 percent in the medium term.

**10. The authorities were concerned about risks to the outlook from the weak global demand conditions and domestic sources**. The latter included risks from a potential outbreak of the African Swine Fever and its impact on food prices and rural incomes, power disruptions, and delays in the implementation of infrastructure projects and passing of the pending reform bills. The authorities assessed the spillover impacts of the U.S.–China trade tensions to have been small so far, reflecting the limited integration of domestic producers in China-related value chains. That said, they expected global growth to remain weak, highlighting the important roles that firm domestic spending and progress in structural reforms will need to play in supporting growth in the near term.

# POLICY ISSUES

*The policy discussions focused on policies to foster stronger and inclusive growth; keep the economy close to balance; and manage vulnerabilities. The discussions also covered recent and future capacity and development (CD) efforts, which have supported the implementation of, and also informed, IMF policy advice, including in the strengthening of the monetary policy framework, financial sector oversight, tax reform, and public financial management (Appendix IV).*

## A. Macroeconomic Policies—Supporting the Growth Momentum

**11. The economy is projected to remain close to internal and external balance under the baseline but faces complex risks**. The combination of a small fiscal stimulus in 2020 and the recent monetary policy easing should help to keep the economy close to balance. But, as discussed below, with the envisaged pickup in growth, risk of and from high credit growth will likely increase even with appropriate macroeconomic policy settings, given the low global interest rate environment. The macroprudential policy response should be proactive, including, at this time, through an update of the macroprudential tool kit. At the same time, the economy also faces downside risks. While the

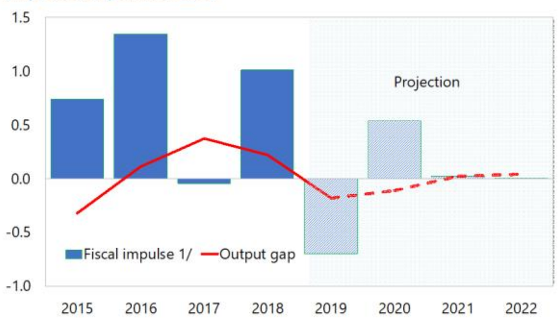
[3] See "Philippines: Vulnerabilities to Climate Change and Natural Disaster," Selected Issues.

current expansionary macroeconomic policy stance provides some insurance against such risks, a sharper-than-expected downturn would call for a more expansionary policy stance.

## Fiscal Policy—Supporting Inclusive and Sustainable Growth

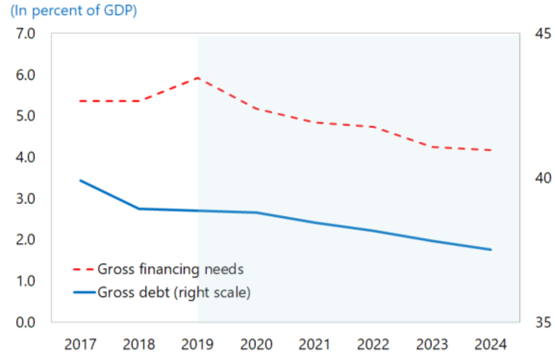
**12. The annual fiscal deficit targets for 2020–2022 will help growth to rebound in the near term and support the government's medium-term growth agenda**. Against the backdrop of underspending in 2019 and recent weakness in economic activity, the authorities increased the annual deficit target for 2020–2022 from 3 percent to GDP to 3.2 percent. The small fiscal impulse from what is effectively a normalization of government spending is timely and appropriate in magnitude, given the underspending earlier in 2019. The revised deficit target is also consistent with the fact that the Philippines has some fiscal space available—the public debt-to-GDP ratio is projected to remain broadly stable at just below 40 percent under the baseline, while gross financing and long-term adjustment needs are low by the standards for emerging market economies often used in debt sustainability analysis (Figure 6 and Appendix III).[4] The 3.2 percent deficit target over 2020–2022 also provides for much-needed additional spending on public capital and pro-poor social programs, consistent with the authorities' socioeconomic objectives. In the medium term, a deficit target of about 3 percent would remain a sustainable anchor for fiscal policy.

**Projected Fiscal Policy Stance: Baseline**
(In percent of potential GDP)




Sources: Authorities; and IMF staff estimates.
1/ Changes in national government cyclically-adjusted primary balance.

**General Government: Gross Debt and Gross Financing Needs**
(In percent of GDP)




Sources: Data provided by the authorities; and IMF staff estimates.

**13. There is scope within the fiscal envelope to expand and better target social spending**. Continuing with recent progress in poverty-reduction efforts, the authorities could gradually expand spending on social programs—building on and expanding the success with the conditional cash transfer program—and on land reform and agricultural productivity. Adequate income support to farmers affected by the rice tariffication is also essential. Continued support to basic education and the recently enacted universal health care system will be important for improving human capital development (Figure 7). These spending increases could be accommodated with savings from changes under consideration in the pending military pension reform bill (raising the retirement age

[4] In the case of emerging market economies, the gross financing need is assessed as "low" if the 2018 value is below 15 percent of GDP. The long-term adjustment need refers to the cyclically-adjusted primary balance needed to stabilize the public debt ratio in the long run. The need for the Philippines is below the G-20 emerging market group's median value.

and introducing mandatory pension contributions), as well as from spending discipline in other areas, including public sector wages.

**14. Enhancing public investment management would contribute to timely and cost-effective implementation of projects**. The authorities have markedly scaled up public infrastructure investment, from an average of 3 percent of GDP during 2011–2016 to 5.1 percent in 2018. They plan to boost investment further, to over 6 percent of GDP by 2022. This boost will also entail a greater contribution from large projects under the authorities' *Build Build Build* program. Given the complexities involved in the planning and execution of such projects, there could be significant potential benefits from improving public investment management. While the Philippines' institutional framework for public investment management compares favorably to its peers, there is scope to enhance its effectiveness, especially regarding project appraisals and public-private partnerships (PPPs). As recommended in the recent IMF *Public Investment Management Assessment* report,[5] project appraisals could be enhanced by requiring upfront identification of risk mitigation measures and publishing appraisal analyses to elicit comments from the public. With adequate management of fiscal risks, more private sector participation could complement the public sector efforts in the infrastructure build-up. Such participation would require dedicated capacity and planning, and an update of the legal framework to include all possible forms of PPPs (for example, joint ventures).

**15. The public procurement process could be made more competitive**. Although a legal framework exists for transparent and competitive public procurement, competition is still not sufficiently effective in practice, with many tenders resulting in a single bidder. Greater competition and transparency would help in managing costs and reducing risks of corruption. Competition could be promoted by imposing stricter sanctions on anti-competitive practices and allowing for greater foreign participation to ease domestic capacity constraints. Making procurement information more easily accessible by the public would increase transparency.

**16. Tax reform will be essential for sustaining higher spending in support of longer-term growth while safeguarding fiscal sustainability**. The envisaged rise in infrastructure investment would require some increase in tax revenue with a medium-term budget deficit anchor around 3 percent of GDP. The authorities implemented the first package of their Comprehensive Tax Reform Program in 2018, which involved excise tax increases for select products and a broadening of the VAT tax base. Continued efforts to improve tax administration and revenue collection, together with further increases in excise taxes on e-cigarette and alcohol products, are remaining revenue-raising reform priorities. The pending bill to streamline and improve the oversight and design of current extensive tax incentive regime, currently being discussed in Congress, would make the regime more accountable and effective in encouraging business investment, job creation, and development.

[5] https://www.imf.org/en/Publications/CR/Issues/2019/05/16/Philippines-Technical-Assistance-Report-Public-Investment-Management-Assessment-46902.

***Authorities' Views***

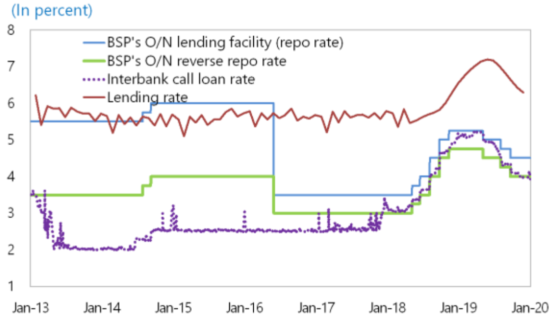
17. **The authorities reaffirmed their commitment to a prudent fiscal policy conduct and, in this context, to further increases in infrastructure and social spending**. They intend to raise the general government infrastructure spending to over 6 percent of GDP by 2022, from 5.1 percent in 2018. Consistent with this objective, they have recently revised the list of priority flagship infrastructure projects, reflecting the results of feasibility studies and cost-benefit considerations. They also noted ongoing efforts to support project implementation, including by allocating more resources to a timely resolution of right-of-way issues and facilitation of resettlements. Promoting more competition in procurement remained challenging, however, mainly because the pool of qualified bidders in infrastructure projects was often small. The authorities also expressed reservation about a greater reliance on PPPs for major infrastructure projects, citing the long delivery times experienced in the past and the difficulties in designing balanced risk sharing agreement with the private sector. On social protection, the authorities reiterated their commitment to supporting rice farmers affected by lower prices resulting from rice tariffication, including income support measures in addition to the Rice Competitiveness Enhancement Fund.

## Monetary and Exchange Rate Policies

18. **After the recent policy rate cuts by Bangko Sentral ng Pilipinas (BSP), the rate is now close to levels consistent with achieving inflation objectives**. The policy tightening in 2018 helped reverse the rising inflation pressures. As the inflation outlook has improved, the cuts in the policy rate in 2019 (75 bps cumulatively) have been appropriate. In the assessment of IMF staff, the monetary policy stance is now close to neutral and consistent with the BSP achieving its inflation objectives under the baseline outlook.[6] The BSP has substantial space to lower its policy rate under a downside scenario, although higher risk aversion or other factors leading to tightening of external financing conditions could potentially constrain its ability to lower rates.

**Interbank and Policy Rates**

(In percent)




Sources: Bloomberg L.P.; and CEIC Data Company Ltd.

**Headline Inflation Projected by IMF's FPAS Model**

(In percent)


Sources: CEIC Data Co. Ltd.; and IMF staff estimates.

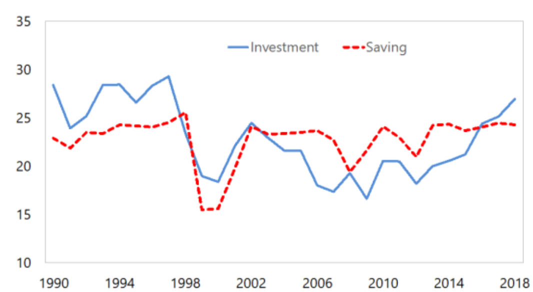
[6] See "Philippines: The Rise and Fall in Inflation During 2018–2019"—Selected Issues.

**19. The BSP has advanced in the modernization of its operational policy framework**. With the success in operating the corridor system, the movements of short-term market interest rates are now more aligned with the policy rate. With this system and the move to Basel III liquidity requirements, the reserve requirement ratio (RRR) has become less relevant as a monetary policy instrument. A lower RRR would reinforce the role of the policy rate as the primary monetary policy instrument and reduce intermediation costs. The current benign inflation environment provides an opportunity to continue with the gradual lowering of the RRR while avoiding potential communication challenges that could arise if policy rates and the RRR moved in opposite directions. The RRR reduction should take credit conditions into account, and its liquidity impact may need to be sterilized.[7] The new BSP Charter provides the basis for a further refining of the operational monetary policy framework, including by allowing the issuance of BSP securities.[8]

**20. The exchange rate should remain a primary shock absorber**. The authorities have generally let the exchange rate move freely in line with market forces. This policy has served the Philippines well and should be continued, and FX intervention should continue to be limited to avoiding disorderly market conditions. The authorities could also consider publishing FX intervention data, with appropriate lags and aggregation to guard against market sensitivities. This step may further enhance clarity and transparency of the BSP's inflation targeting framework, given the occasional use of FX intervention.

**21. Based on preliminary estimates, the 2019 external position is assessed as being in line with medium-term fundamentals and desirable policy settings** (Appendix II). Based on preliminary estimates for 2019, the cyclically-adjusted current account deficit was estimated at 1.7 percent of GDP, close to the estimated current account norm of a deficit of 2.1 percent. Nevertheless, the increased reliance on portfolio and other volatile capital inflows to finance the current account deficit amid lower household saving entails a greater exposure to global financial markets, and related vulnerabilities should be monitored closely.

**Saving and Investment Balance**
(In percent of GDP)




Sources: Philippines Statistics Authority; and IMF staff estimates.

[7] With a diminished role of the RRR, the reserve maintenance period could also be extended from the current one week to 2–4 weeks.

[8] As the BSP can now issue its own securities under the revised central bank law, monetary operations would also benefit from coordination between the BSP and the government, in liquidity forecasting and in developing money and bond markets. In addition, the BSP could also consider a refined operational target, with the policy rate defined as a target for market rates, instead of a fixed rate on its overnight reverse repo.

***Authorities' Views***

**22. The authorities agreed that, under current circumstances, the monetary policy stance was appropriate to achieve the inflation target**. They projected that headline inflation, on an annual average basis, would reach the midpoint of the target band by 2020, as domestic demand growth would firm further. They expected the inflation effects from lower food prices to wear off in 2019 and early 2020. BSP officials noted that the reduction of the RRR was desirable and structural in nature. Nonetheless, given the long history of RRRs as a monetary policy instrument in the past, markets could misinterpret RRR reductions as changes to the monetary policy stance. Hence, the risk of miscommunication associated with RRR reductions may be lower when inflation pressures are moderate. They also appreciated the Fund's technical assistance on monetary policy operations and requested continued support in this area.

**23. The authorities shared staff's assessment of the external position**. On publishing foreign exchange intervention (FXI) data, they were of the view that the market already had a good understanding about the BSP's FXI activities from publicly available data. Further disclosure of FXI data was likely to encourage speculation, with little tangible benefit.

## B. Macroprudential Policy—Preparing for Risks from High Credit Growth

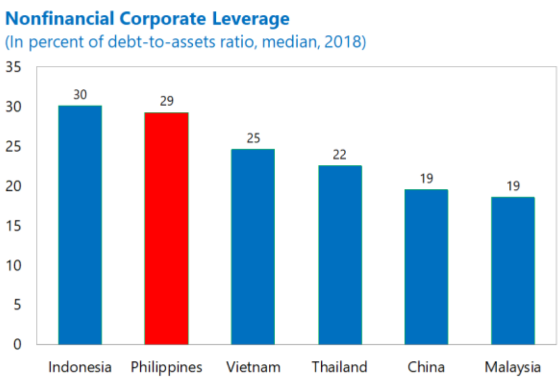
**24. Systemic financial risks appear contained, with the financial system dominated by well-capitalized banks**. In 2019:H1, the capital adequacy ratio for the (consolidated) banking system stood above 15 percent, well beyond BSP (10 percent) and Basel III minimum requirements. The main banking sector risks relate to possible loan quality risks after a period of high credit growth episodes, external shocks, and concentrated exposures because of broader interlinkages among large borrowers not covered by standard large exposure limits under the Basel framework (for example, among conglomerates and real estate). IMF staff analysis suggests that the peak credit growth of close to 20 percent in 2017–2018 was high enough to qualify as a near-credit boom according to some standard metrics, a first since the1997 Asian financial crisis.[9] The high bank credit growth was largely driven by real estate sector loans. While credit growth has moderated, credit to real estate continued to outpace that to manufacturing and now accounts for the largest share in total loans outstanding (about 18 percent).

**25. Nonfinancial firms are relatively more leveraged and exposed to exchange rate shocks than elsewhere in the region**. Staff analysis shows that the median leverage in a representative sample of Philippine firms, as measured by the debt-to-assets ratio, was among the highest in the region as of end-2018.[10] The average share of FX debt is also relatively higher at 17 percent, especially among large firms. Nonetheless, stress test results indicate that Philippine firms' balance sheets are sufficiently healthy to absorb large shocks in the short term. There are, however, data gaps, including with regard to corporate interlinkages, that prevent broader systemic financial

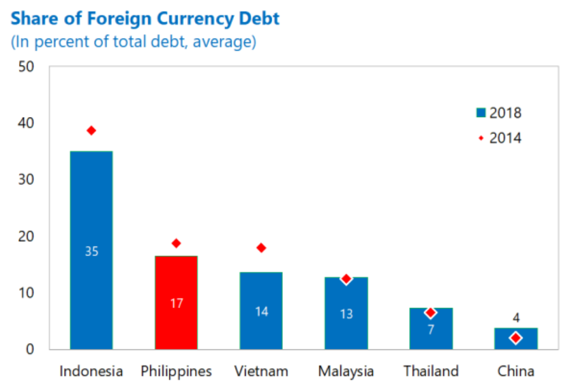
[9] See Figure 4 and "Philippines: Evolution of Bank Credit Growth"—Selected Issues.

[10] See "Corporate Leverage in the Philippines: A Concern?"–Selected Issues.

stability assessments. Over the long term, sustained capital market development and FX liberalization efforts would contribute to limiting firms' exposures to exchange rate risks and reducing their heavy reliance on bank loans.




Sources: S&P Capital IQ; and IMF staff estimates.




Sources: S&P Capital IQ; and IMF staff estimates.

**26. Credit growth is expected to increase moderately under the baseline, also risks of and from a sharper increase will likely rise with a pickup in economic growth**. The increase reflects the actual or expected reversal of some demand drivers behind the recent slowing, including the fiscal and, partially, the monetary policy stance. Their effects could be reinforced by continued external favorable financial conditions as well as the impact of the government investment plans in the economy. Under the circumstances, and with new market segments such as small business and consumer credit possibly developing rapidly, the risks of credit growth returning to the higher rates of 2017–18 will likely rise. At the same time, with space constraints in Metro Manila, real estate prices and leverage in the sector could rise further.

**27. The macroprudential policy framework should be readied for a proactive response should risks of and from high credit growth increase**. The BSP has recently adopted Basel III Liquidity and Net Stable Funding Ratios, and a countercyclical capital buffer (CCyB), which has not been activated. Timely activation of the CCyB should be considered if risks of broad-based rapid credit growth reemerge, while targeted measures would be preferable if such risks are more sector-specific. As for the latter, real estate-related risks seem most relevant at the moment. The BSP has indicative sectoral exposure and mortgage collateral value limits at the bank level in its toolkit. To address such sectoral risks, it could also consider introducing loan-to-value (LTV) and debt-to-income (DTI) caps as new instruments. They would provide for a more macroprudential approach that targets the demand for housing-related loans directly and in a timelier fashion. Such an approach better captures the market impact of individual financial institutions and the interactions with the real economy and, therefore, more effectively address systemic financial stability risks.

These issues will also be considered in the 2020 FSAP, which will review the macroprudential framework, including instruments and past practice, and systemic risk monitoring.

***Authorities' Views***

**28. The authorities assess systemic financial stability risks to be low and see limited risks of high credit growth reemerging**. While the authorities acknowledged that there was some evidence of a near-credit boom during the period 2017–18, they highlighted that the assessment was model-dependent and only held in some but not all models presented by staff. They also stressed that their baseline projections for credit growth in the next few years are at low two-digit levels, and that they saw limited risks of high credit growth in the near term. The authorities agreed that the mortgage collateral value limits could complemented by a more general LTV and DTI approach. They shared the view that a timely activation of the CCyB was important for effective, forward-looking systemic financial risk management. This would require judgment, based on a range of identified indicators of excess credit. The authorities underscored that risk to financial stability and credit growth were not only linked to high economic growth and rapid financial deepening. A synchronized global slowdown would also affect growth and corporate profits in the Philippines and increase financial stability risks.[11]

## C. Continue the Transformation—Creating Opportunities and Fostering Inclusion

**29. Bolder implementation efforts will ensure that the strong structural reform momentum bears fruit**. Several important reforms bills have been signed into law recently, including rice tariffication, a national digital ID, the ease of doing business, and BSP charter amendments. Other reform bills are with Congress or under preparation and seem to have good prospects for passage, given the outcome of the May 2019 midterm election. Successful delivery of these reforms, however, would require enhancing implementation capacity of the public administration.

**30. The efforts to upgrade digital capacity in public administration should continue**. A substantial part of government operations in the Philippines continues to be paper-based, posing significant governance and corruption risks, while also hampering efficiency. The digitalization of the operations should be carried through as planned, including in cross-border trade, tax administration, and public financial management. The introduction of the national digital ID system would support the targeting of social spending and financial inclusion, and also contribute to greater transactional efficiency more broadly (Box 1).

**31. Measures to promote competition and trade would reinforce the benefits of other reforms**. Recent reforms have focused on reducing the costs of doing business through

[11] The most recent *Financial Stability Report* (available at http://www.bsp.gov.ph/publications/regular_fsr.asp) provides the authorities' broader assessment.

infrastructure improvements and increased administrative and regulatory efficiency. A newly established Anti-Red Tape Authority is in charge of implementing the latter, promoting one-stop shops, e-platforms, standardization of licensing procedures, and regulatory transparency. Other steps to reinforce the growth benefits from these reforms should also be considered. In particular, despite recent progress, there still are relatively high barriers to FDI—among the most stringent in the region—and procedural hurdles to international trade that also hamper domestic competition. Amid the ongoing reconfiguration of global supply chains and trade linkages, lowering these obstacles could stimulate investment and facilitate absorption of frontier technologies.

**32. The Philippines has taken a number of climate change-related initiatives, but further steps are needed**. The Philippines has been one of the most proactive emerging market countries in strengthening financial preparedness for natural disasters and green financing, and in introducing government budgeting for climate change. But more resources and incentives for climate change adaptation and mitigation are needed to induce investment and changes in emission patterns (see Selected Issues on climate change). Greater climate change resilience would also contribute to further poverty reduction.

**33. The anti-money laundering (AML) and anti-corruption frameworks and their implementation could be strengthened further**. The AML law has been amended to cover casinos and an expanded list of predicate crimes, while the effectiveness of the Anti-Money Laundering Council (AMLC) in addressing AML risks has been strengthened, including through increased staffing. Nevertheless, as noted in the recent Mutual Evaluation Report (MER) by the Asia/Pacific Group (APG), the AML/CFT framework and its implementation require major improvements to avoid the risk of the Philippines being included in the FATF list of jurisdictions with serious AML/CFT deficiencies. In particular, tax evasion should be added to the list of predicate crimes, while customer due diligence for politically exposed persons and risk-based supervision of the gaming sector could be intensified. Relaxing the stringent banking secrecy law and establishing a robust beneficial ownership registry would not only support the AMLC's efforts but also help in fighting tax evasion and corruption.

***Authorities' Views***

**34. The authorities were optimistic about reform prospects, noting significant progress in several areas**. Following the enactment of the Ease of Doing Business law in May 2018, the Anti-Red Tape Authority has been established to oversee the streamlining of procedures for government licenses and permits. The authorities also intend to further ease the restrictions on foreign investment by amending relevant laws, especially for public utilities. They remain committed to digitalizing government operations but noted several implementation challenges due to reform fatigue among line agencies and difficulty in customizing the IT systems. The authorities saw the national digital ID system, which they plan to start rolling out in 2020, as an important measure toward improving government interoperability and governance.

**35. Climate change adaptation is proceeding at the national and local levels**. The national government has recently coordinated with the World Bank to issue its first Catastrophe Bonds, which aims to provide insurance against natural disasters. In addition to climate-change-related adaptation and mitigation actions at the national level, local government units' adaptation projects—which are specific to each small community—are being received, evaluated, and financed through the People's Survival Fund.

**36. The authorities are working on improving the AML/CFT framework and its implementation**. In response to the 2019 MER by the APG, the Anti-Money Laundering Council has been restructured and its staffing has been increased. Moreover, the Council has taken measures to meet the recommended actions for AML Act implementation within the one-year window afforded by the APG. The authorities' legislative priorities focus on amendments to the Bank Deposit Secrecy Law and the Anti-Money Laundering Act to comply with international standards.

# STAFF APPRAISAL

**37. The Philippine economy continues to be a strong performer despite recent headwinds but faces downside risks to the outlook**. Prudent policies and structural reforms have supported economic activity and macroeconomic stability over the past decade. Real GDP growth has regained momentum in the second half of 2019 after a short-lived slowing and is projected to firm up further in 2020, underpinned by government spending acceleration and the recent monetary easing. The risks to the outlook are tilted to the downside, however, reflecting higher risks from global trade tensions, shifts in global financial conditions, and natural disasters.

**38. Macroeconomic policies are attuned to the outlook**. The moderate fiscal stimulus planned for 2020 and the monetary policy easing since mid-2019 are consistent with the economy moving back to growing at capacity and achieving the inflation objectives in the baseline outlook.

**39. The Philippines has policy space and could adopt a more expansionary macroeconomic policy stance should downside risks materialize**. Under these adverse risk scenarios, fiscal stimulus should be prioritized toward public capital and social spending programs. The BSP also has substantial space to lower its policy rate if downside surprises materialize.

**40. The 2019 external position is, based on preliminary estimates, assessed to be broadly in line with medium-term fundamentals and desirable policy settings**. Nonetheless, the recent rise in portfolio and other volatile capital inflows amid declining household saving should be monitored closely. The exchange rate should remain a primary shock absorber against external shocks. Publishing FX intervention data could be considered, with appropriate lags and aggregation to guard against market sensitivities.

**41. Closing the infrastructure gap would require further reform efforts**. Enhancing public investment management, including by promoting greater competition and allowing easier public access to information in the procurement process, would enable the planned increase in the infrastructure investment enveloped and contribute to its timely and cost-effective implementation, and also reduce incidence of corruption. The planned tax incentive reform would make the regime more accountable and effective in encouraging investment and job creation.

**42. The macroprudential policy response should be proactive if risks of and from high credit growth increase again**. The BSP should timely activate the CCyB if risks of broad-based rapid credit growth reemerge, develop targeted macroprudential measures, such as loan-to-value and debt-to-income caps, and tighten them if high credit growth risks are more sector-specific—for example, in the real estate sector.

**43. Building on the progress in recent years, bolder implementation efforts would help the strong structural reform momentum bear fruit**. Strengthening the capacity of the public administration, advancing with the ease of doing reforms, and continuing with the infrastructure push will be central in this respect. The reform agenda could be reinforced by further lifting restrictions on foreign direct investment, broadening the scope of poverty reduction efforts, mobilizing more resources for climate change adaptation and mitigation, robust implementation of the AML/CFT regime, and easing the stringent bank secrecy law.

**44. It is recommended that the next Article IV consultations take place on the standard 12-month cycle**.

## Box 1. Fintech Innovation in the Philippines 1/

**Fintech services are being adopted rapidly**. The potential demand for digital financial services in the Philippines is high, given the rapidly growing economy, positive demographics, low bank penetration, and high mobile and internet usage.[2/] Big tech has indeed entered the financial services sector, particularly in payments. Grab, Go-Jek and Oriente offer mobile payments and credit (e.g., to drivers on ride-hailing platforms and small businesses). Facebook offers payment services through its platform, in cooperation with mobile money operators. Several international remittance providers are using innovative methods for channeling remittance flows into the country.

**The adaptation has been facilitated by a supportive regulatory environment and other policy initiatives**. The authorities view fintech innovation as a means to strengthen financial inclusion. The BSP has adopted a "Test-and-Learn" approach to the regulation of new services and clarified policies related to fintech innovation.[3/] It has also made efforts to strengthen the regulatory and supervisory framework to take into account risks arising from fintech, such as cyber risk.[4/] The BSP has also supported fintech solutions on the infrastructure side (e.g., through the introduction of the InstaPay and PesoNet automated clearing house under the National Retail Payment System). The National Digital ID initiative, which is expected to be rolled out in mid-2020, will likely strengthen financial inclusion and potentially fintech, once the relevant architecture and processes are put in place that would make the digital ID useful for basic bank accounts and online transactions.

**Further fintech development will require improvements in telecommunication infrastructure and the population's financial literacy**. The telecommunications infrastructure lags the most compared to other countries in the region. The entry of a third telecommunication player, which is launching operations in 2020, is expected to foster competition and add to capacity in the sector. The Philippines also suffers from low financial literacy, highlighting the need for financial education as well as strengthened consumer protection, as the take up of new fintech-based products and services expands. Meanwhile, fintech start-ups in the Philippines face capital and labor constraints, while established banking players have typically been slow in embracing fintech innovation.

**While fintech can enhance financial inclusion and boost competition in the financial sector, it also poses policy challenges, including financial stability and integrity**. First, the models employed by new fintech credit platforms have not yet been tested in an economic downturn. Second, there may be new financial integrity, operational, and evolving cyber risks from a greater reliance on digital technologies. Third, global stablecoin proposals, if introduced, could be relatively more disruptive in countries like the Philippines with large remittances and a relatively high use of social media.[5/]

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1/ Prepared by Jon Frost (Bank for International Settlements, BIS) and Jermy Prenio (BIS).

2/ While internet penetration is 72 percent and mobile phone penetration is 124 percent, only 32 percent of adults have a formal bank account. For cross-country evidence on fintech adoption, see Claessens, Frost, Turner and Zhu, 2018, "Fintech Credit Markets Around the World: Size, Drivers, and Policy Issues," *BIS Quarterly Review* (September).

3/ See Governor Nestor A. Espenilla, Jr., 2018, "Providing an Enabling Environment at the Crossroads of Digital Transformation," June. The Financial Sector Forum, which is formed by BSP, SEC, Insurance Commission, and Philippine Deposit Corporation, coordinates the regulatory responses to fintech innovations in the Philippines.

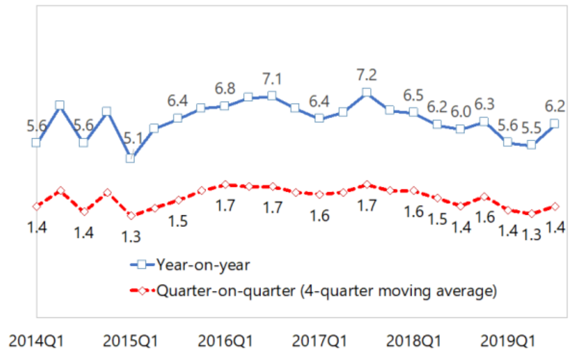
4/ See for example BSP (2017), "Circular 982," and BSP (2018), "Circular 1019." See also IMF (2019): "Fintech: The Experience So Far," June.

5/ See G-7 Working Group on Stablecoins, 2019, "Investigating the impact of global stablecoins," October (G-7, IMF & BIS).

## Figure 1. Drivers of Growth

*Growth picked up in 2019:Q3…*

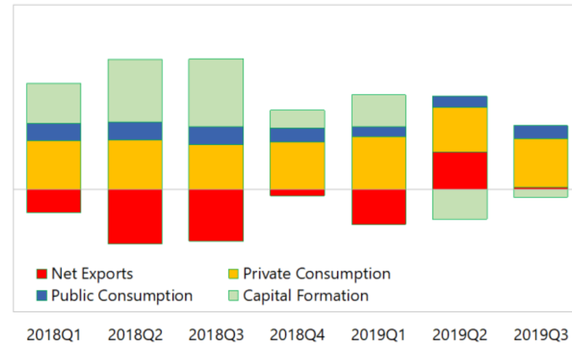
**Real GDP Growth**
(In percent)




Sources: Haver Analytics; and IMF staff estimates.

*…as fixed investment started to recover…*

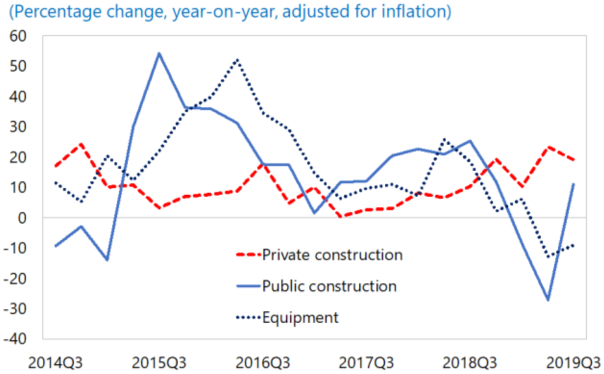
**Contribution to GDP Growth**
(In percent, year-on-year)




Sources: Philippine Statistics Offices; and IMF staff estimates.

*…especially for public construction.*

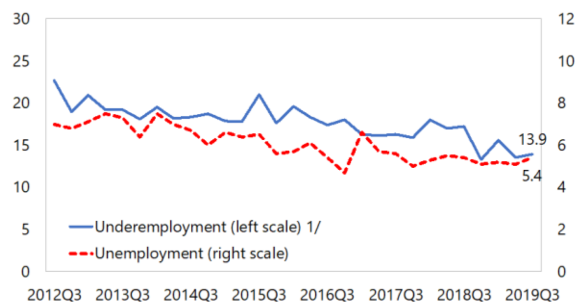
**Fixed Investment**
(Percentage change, year-on-year, adjusted for inflation)




Sources: Haver Analytics; and IMF staff estimates.

*Labor market slack continues to shrink.*

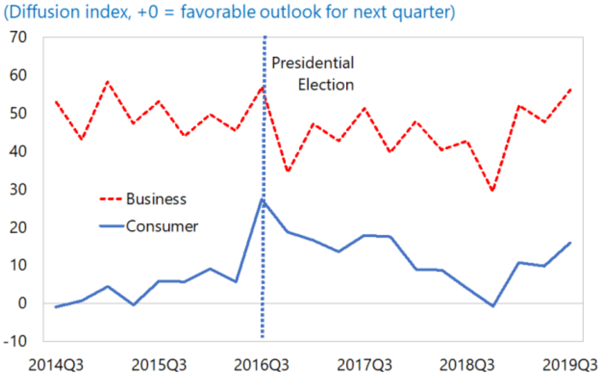
**Unemployment and Underemployment Rate**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.
1/ Employed persons who want additional hours of work in their present job, or to have additional job, or to have a new job with longer working hours.

*Confidence is strengthening…*

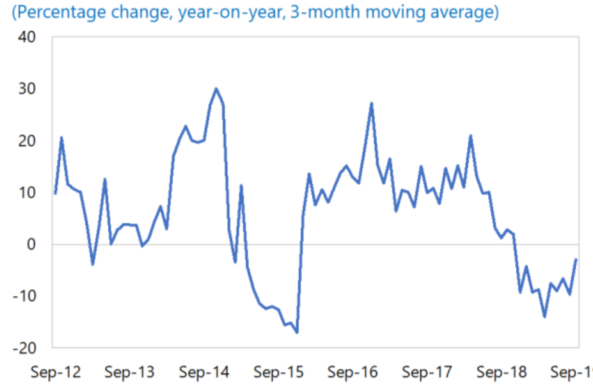
**Consumer and Business Confidence Index**
(Diffusion index, +0 = favorable outlook for next quarter)




Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

*…and manufacturing production appears to have bottomed out.*

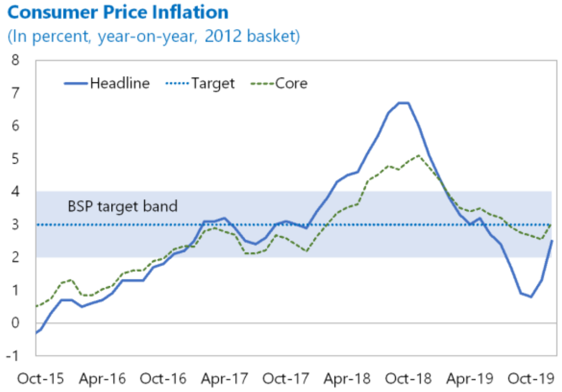
**Manufacturing Production Volume**
(Percentage change, year-on-year, 3-month moving average)




Sources: Philippine Statistics Authority; and IMF staff estimates.

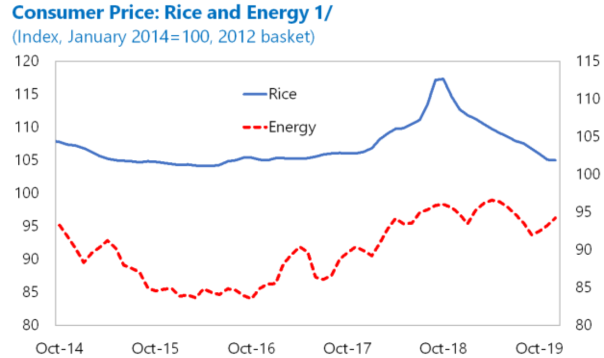
## Figure 2. Inflation Dynamics

*Inflation declined from its peak in 2018 before rebounding somewhat recently.*



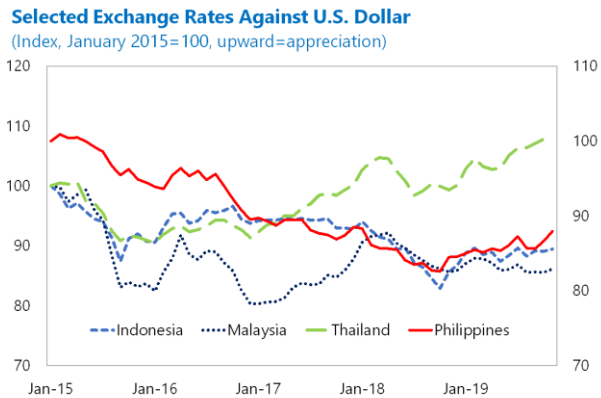

Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

*The decline in inflation from 2018 levels partly reflected lower rice and energy prices...*



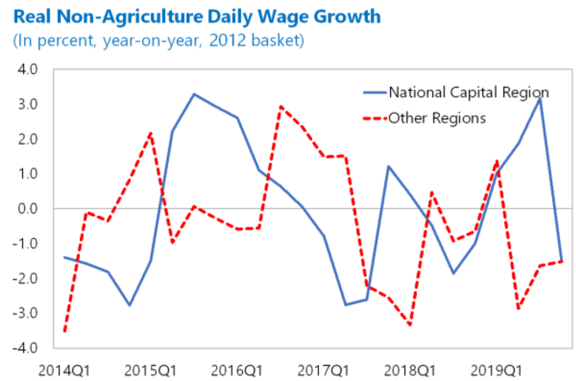

Sources: Philippine Statistics Authority; and IMF staff estimates.
1/ Energy refers to gas and other fuels.

*...and pass-through from appreciation.*



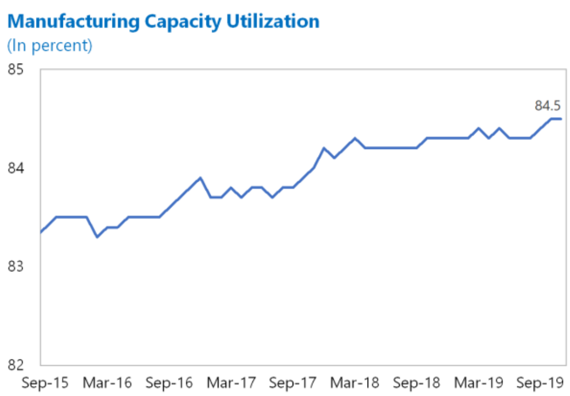

Sources: Haver Analytics; and IMF staff estimates.

*Wage growth in 2019 appears to be moderate on average.*




Sources: Haver Analytics; and IMF staff estimates.

*Capacity utilization has remained steady.*




Sources: Philippine Statistics Authority; and IMF staff estimates.

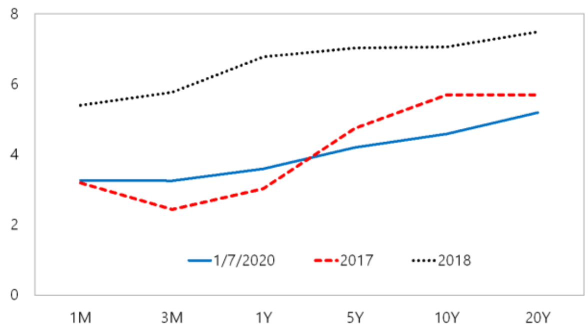
*Inflation expectations have also declined from 2018 levels.*


Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

## Figure 3. Monetary and Financial Conditions

*The treasury yield curve has shifted down in 2019...*

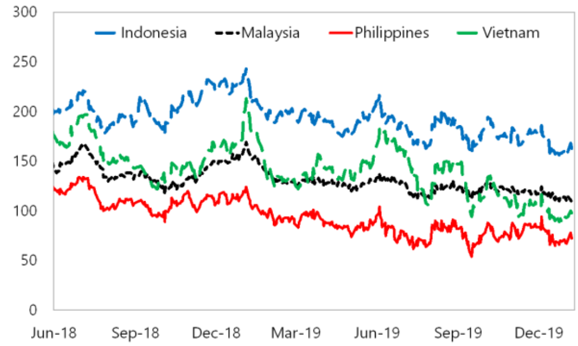
**Government Bond Yields**
(In percent, end of period)




Sources: Bloomberg L.P.; and IMF staff estimates.

*...accompanied by lower sovereign premium as global financial conditions have eased.*

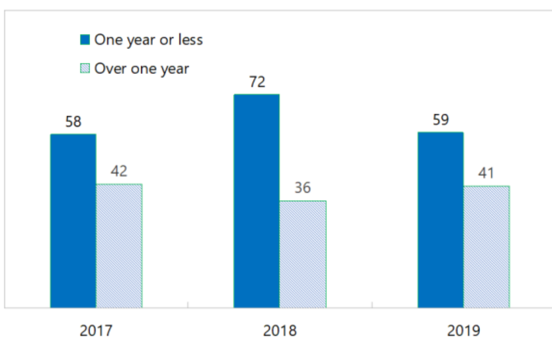
**Selected Asian Economies: EMBIG Spread**
(In basis point)




Sources: Bloomberg L.P.; and IMF staff estimates.

*Government financing is shifting back toward long-term debt.*

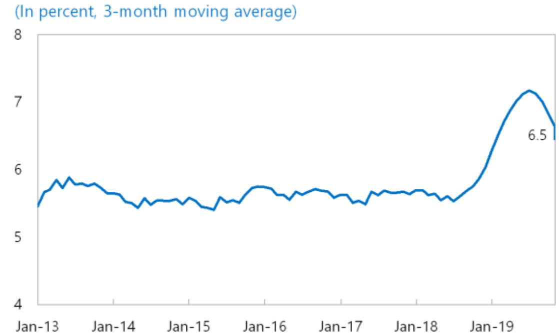
**Government Securities Issuance by Maturity**
(In percent of total issuance over January–September)




Sources: Bureau of the Treasury; and IMF staff estimates.

*Bank lending rates have declined reflecting recent policy rate cuts.*

**Commercial Banks' Average Lending Rate 1/**
(In percent, 3-month moving average)




Sources: CEIC Data Co. Ltd.; and IMF staff estimates.
1/ Average of 10 commercial banks' interest income on peso-denominated loans.

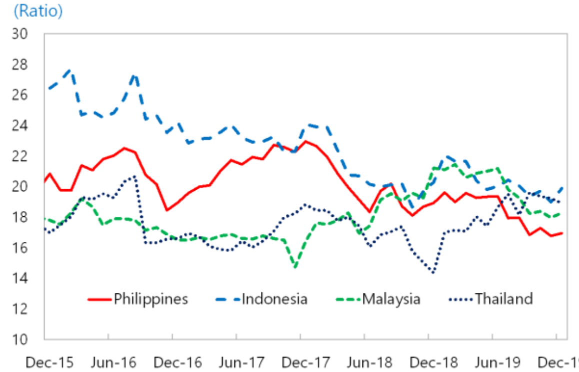
*The liquidity released from the reserve requirement reduction was partly absorbed by the higher TDF auction offer volumes.*

**Placements in the BSP Term Deposit Facility 1/**
(In billions of peso, end of month)


Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.
1/ Variable rate, multiple-price auctions offered at seven, 14, and 28-day tenors.
Red dots indicate the months of reserve requirement cuts.

*Stock market valuation is relatively low in the region.*

**Selected Asian Economies: Stock Market P/E Ratio**
(Ratio)

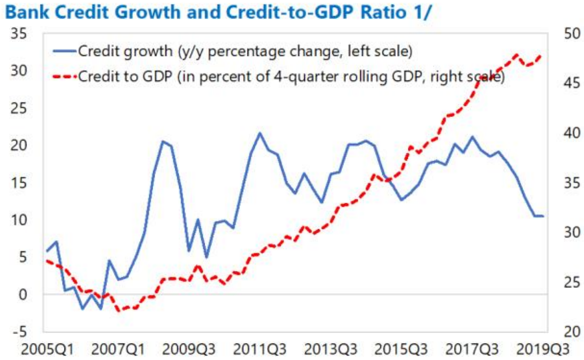



Sources: Bloomberg L.P.; and IMF staff estimates.

## Figure 4. Macrofinancial Linkages

*Credit growth has decelerated since 2018:H2…*

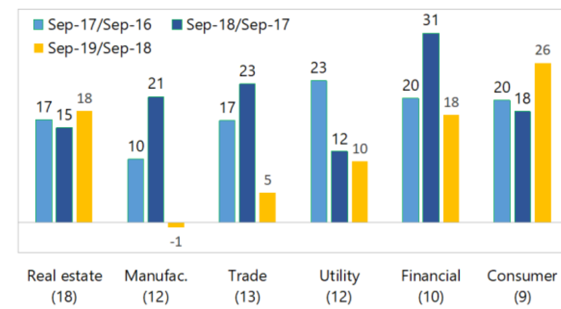
**Bank Credit Growth and Credit-to-GDP Ratio 1/**




Sources: CEIC Data Company Ltd; and IMF staff estimates.
1/ Loans by universal and commercial banks, net of reverse repos.

*…especially in manufacturing and trade.*

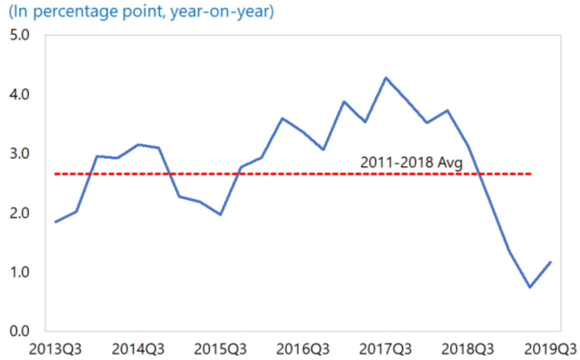
**Universal and Commercial Banks: Loan By Sector 1/**
(Percentage change, year-on-year)




Sources: CEIC Data Company Ltd; and IMF staff estimates.
1/ Figures in parantheses denote the share of respectives sectors in total bank loan outstanding as of end-September, 2019.

*The credit-to-GDP ratio increment has fallen recently…*

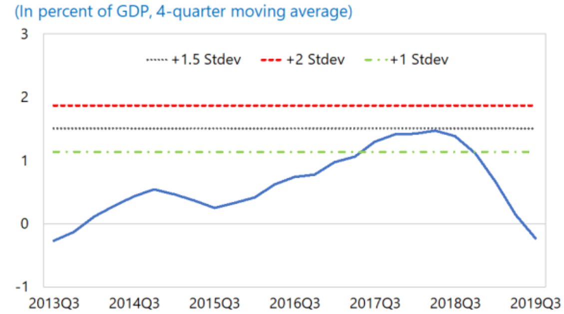
**Change in Credit-to-GDP Ratio**
(In percentage point, year-on-year)




Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

*…and the credit-to-GDP gap has rapidly declined.*

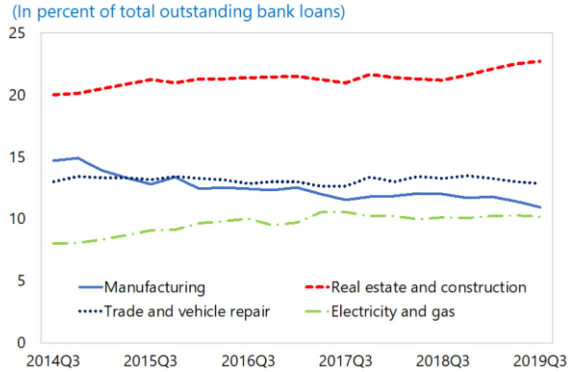
**Credit-to-GDP Gap 1/**
(In percent of GDP, 4-quarter moving average)




Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.
1/ Calculated using a one-sided Hodrick-Prescott filter with the smoothing parameter of 400,000. The sample gap average (2011Q1-2018Q1) is added to the thresholds.

*There are no evident signs of sector-specific credit boom.*

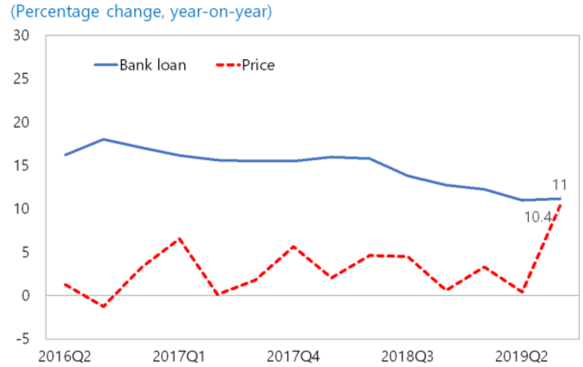
**Share of Corporate Loan by Sector**
(In percent of total outstanding bank loans)




Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

*The housing market is strong and warrants close monitoring.*

**Residential Real Estate: Bank Loan and Price Growth**
(Percentage change, year-on-year)

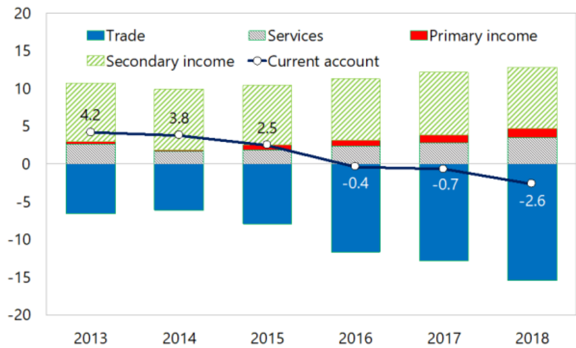



Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

## Figure 5. External Sector

*The current account balance declined further in 2018…*

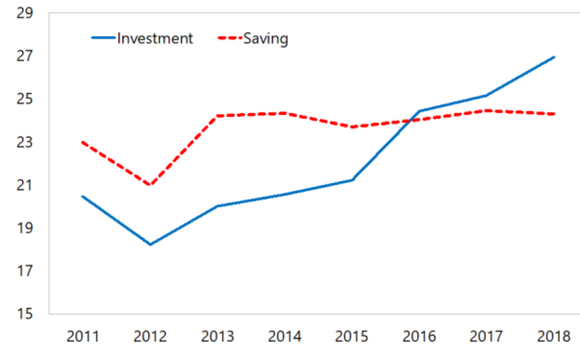
**Current Account Balance**
(In percent of GDP)




Sources: CEIC Data Co. Ltd.; and IMF staff estimates.

*…primarily due to higher investment…*

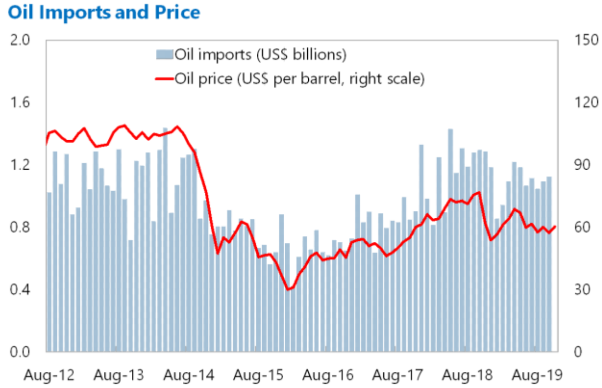
**Saving and Investment**
(In percent of GDP)




Source: IMF staff estimates.

*…and higher oil prices.*

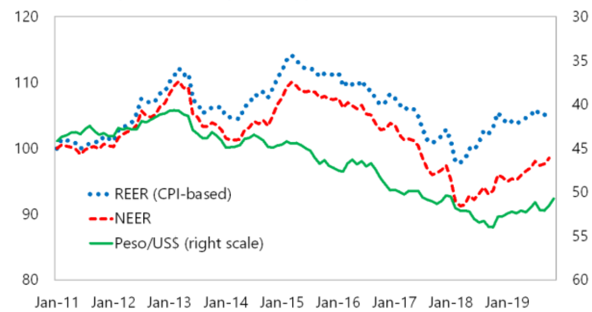
**Oil Imports and Price**




Sources: IMF, Commodity Price System; and CEIC Data Co. Ltd.

*The real exchange rate appreciated, mainly reflecting higher domestic prices.*

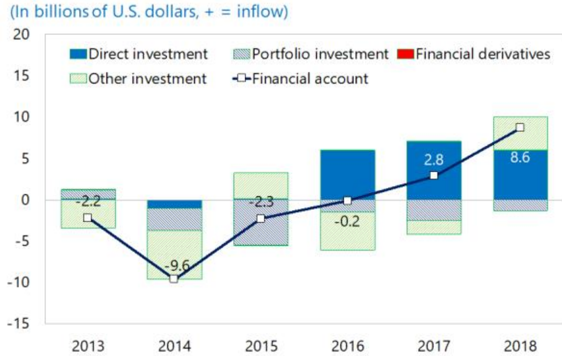
**Exchange Rates**
(Index, January 2011=100, upward=appreciation)




Sources: Bloomberg Data L.P.; and IMF staff estimates.

*FDI and other investment inflows in 2018 more than offset the outflows in portfolio investment.*

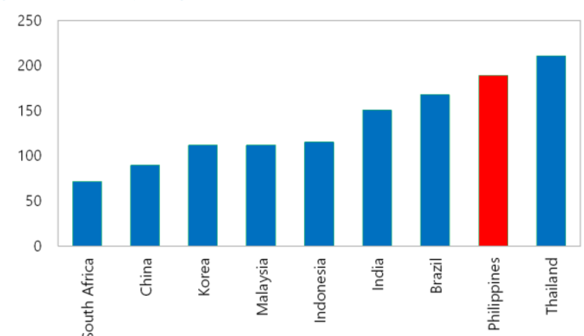
**Capital Flows**
(In billions of U.S. dollars, + = inflow)




Sources: CEIC Data Company Ltd.; and IMF staff estimates.

*International reserves remain adequate.*

**Reserves Against IMF Adequacy Metric**
(Percent of metric, 2018)

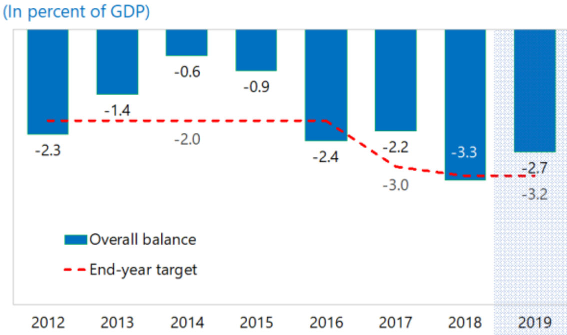



Source: IMF staff estimates.

## Figure 6. Fiscal Developments

*The overall deficit widened in 2018…*

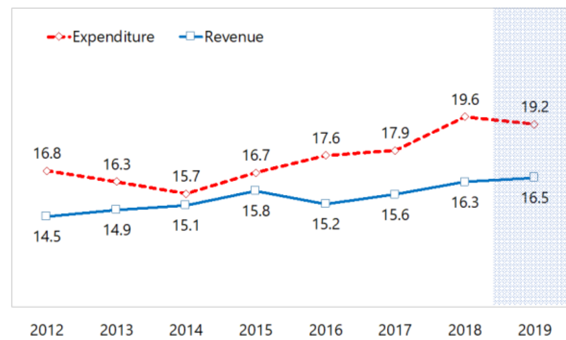
**National Government: Overall Balance 1/**
(In percent of GDP)




Sources: Haver Analytics; and IMF staff estimates and projection for 2019.
1/ Excluding privatization receipts.

*…mainly due to increased expenditure…*

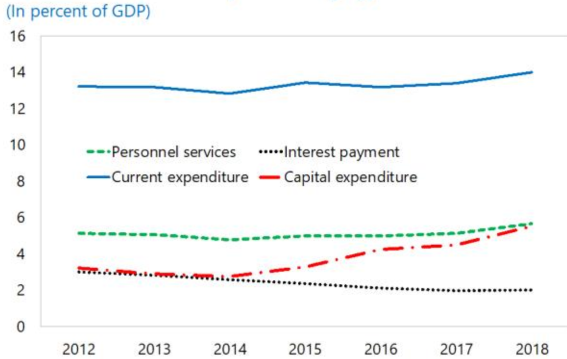
**National Government: Revenue and Expenditure**
(In percent of GDP)




Sources: Haver Analytics; and IMF staff estimates and projection for 2019.

*…led by capital expenditure, including infrastructure.*

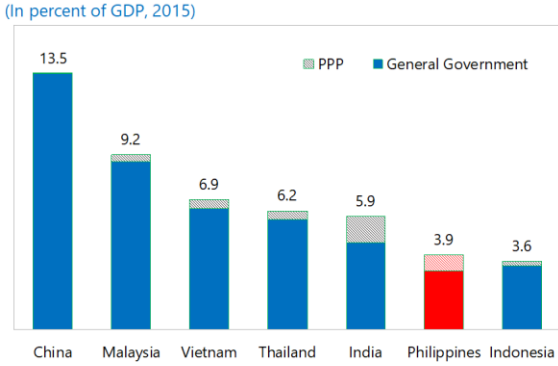
**National Government: Expenditure by Type**
(In percent of GDP)




Sources: Department of Budget and Management; and IMF staff estimates.

*But public investment remains low compared to Asian peers.*

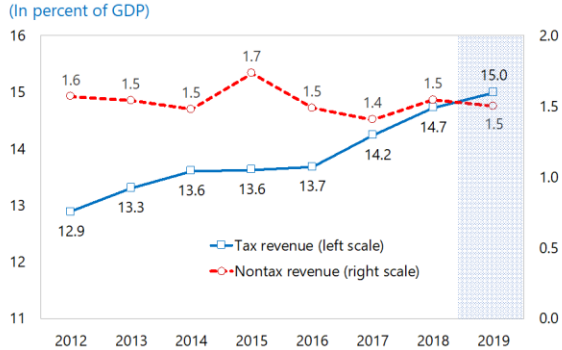
**Public Investment**
(In percent of GDP, 2015)




Sources: IMF Investment and Capital Stock Dataset; and IMF staff estimates.

*Tax revenue is expected to rise further in 2019, partly reflecting the implementation of tax reform.*

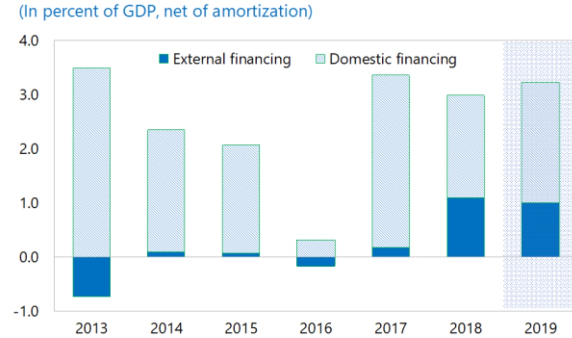
**National Government: Revenue by Source**
(In percent of GDP)




Sources: Department of Finance; and IMF staff estimates and projection for 2019.

*Financing has mostly relied on domestic sources.*

**National Government: Financing by Source**
(In percent of GDP, net of amortization)

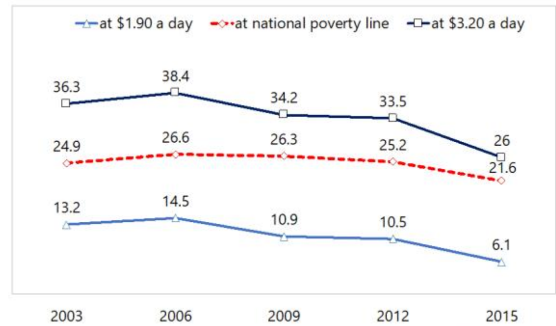



Sources: Bureau of Treasury; and IMF staff estimates and projection for 2019.

## Figure 7. Poverty and Inequality

*Poverty has been falling…*

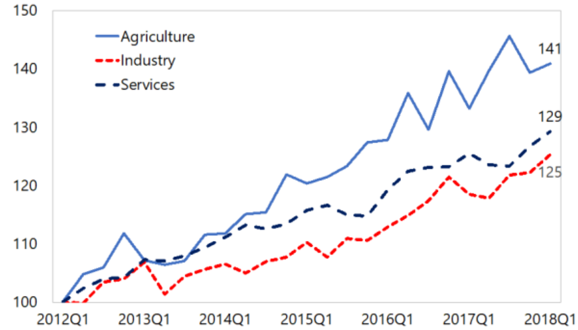
**Poverty Rate**
(In percent of population)




Sources: World Bank, World Development Indicators; and IMF staff estimates.

*…partly due to higher agriculture wage growth in relatively poor rural areas.*

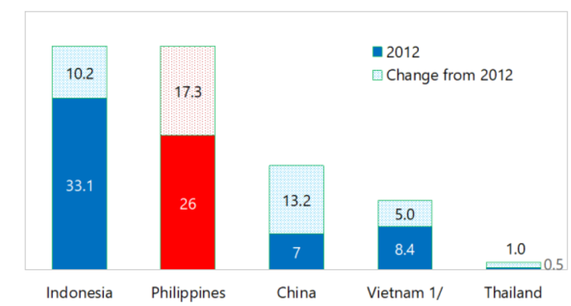
**Average Daily Wage by Sector**
(Index, Q1:2012=100)




Sources: Philippines Statistics Authority; and IMF staff estimates.

*But poverty remains persistently high, especially compared to Asian peers.*

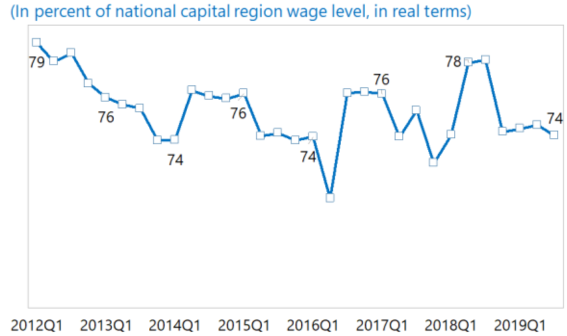
**Poverty Rate in Selected Asian Economies: 2012–2015**
(Poverty headcount ratio at $3.20 a day, 2011 PPP, in percent of population)




Sources: World Bank, World Development Indicators; and IMF staff estimates.
1/ The end year is 2016.

*Lack of high-quality non-agriculture jobs outside the national capital region could have contributed.*

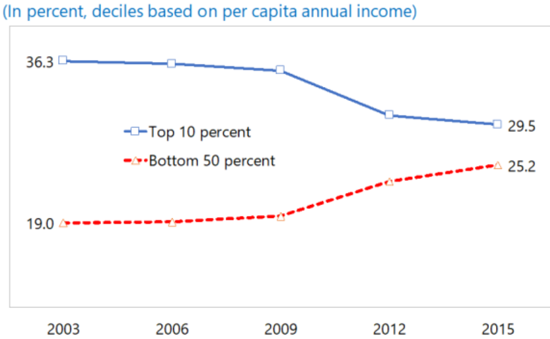
**Non-Agriculture Wage Outside National Capital Region**
(In percent of national capital region wage level, in real terms)




Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.
1/ Based on the highest wage level outside the national capital region.

*Inequality has improved markedly since 2009…*

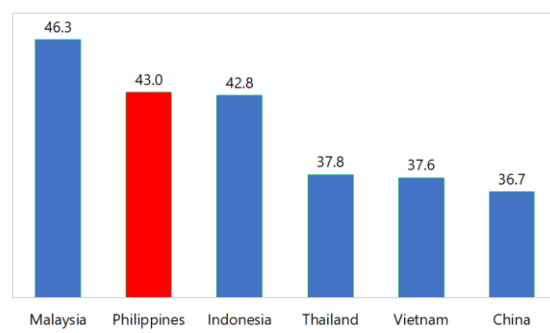
**Income Share Held by Top 10 and Bottom 20 Percent**
(In percent, deciles based on per capita annual income)




Sources: Philippine Statistics Authority, Family Income and Expenditure Survey; and IMF staff estimates.

*…but is still high by regional standards.*

**Income Inequality in Selected Asian Economies**
(GINI index, 2015, 100=perfect inequality)




Source: IMF, FAD Income Inequality Dataset; and IMF staff estimates.

## Figure 8. Business Environment 1/

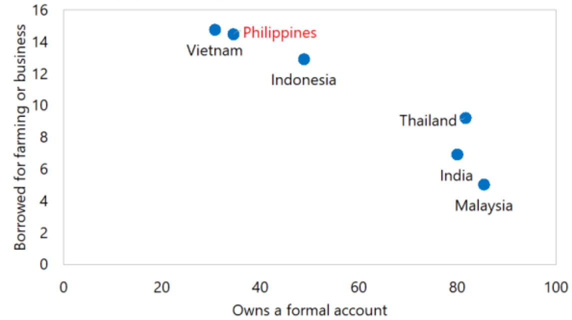
*The overall business environment in the Philippines remains challenging despite some recent progress…*

**Ease of Doing Business: Distance to Frontier Score**
(100=Global Frontier)


Sources: World Bank, Doing Business 2020; and IMF staff estimates.
1/ Average of India, Indonesia, Malaysia, Thailand, and Vietnam.

*…including the access to financial services.*

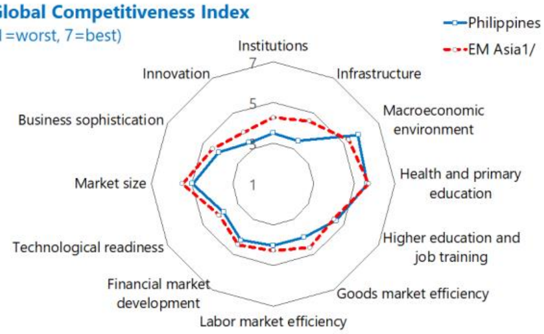
**Access to Financial Services, 2017**
(In percent of population, age 15 and above)




Sources: World Bank, Global Financial Inclusion Database; and IMF staff estimates.

*The Philippines also lags its competitors in terms of infrastructure…*

**Global Competitiveness Index**
(1=worst, 7=best)




Sources: World Economic Forum, Global Competitiveness Report 2019 edition; and IMF staff estimates.
1/ Average of India, Indonesia, Malaysia, Thailand, and Vietnam.

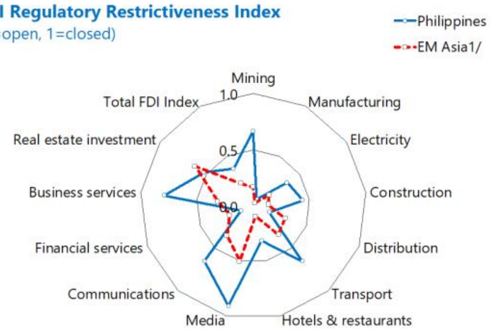
*Quality upgrades are needed across all sectors.*

**Global Competitiveness Index: Quality of Infrastructure**
(1=worst, 7=best)


Sources: World Economic Forum, Global Competitiveness Report 2019 edition; and IMF staff estimates.
1/ Average of India, Indonesia, Malaysia, Thailand, and Vietnam.

*The regulatory barriers to FDI remain high…*

**FDI Regulatory Restrictiveness Index**
(0=open, 1=closed)




Sources: OECD, FDI Regulatory Restrictiveness Index, 2018; and IMF staff estimates.

*…as well as the impediments to cross-border trade.*

**Procedural Barriers to Trade**
(Distance from ASEAN best practice, 0=best practice in ASEAN)


Sources: OECD, Trade Facilitation Indicators, 2017; and IMF staff estimates.

1/ The indicators above should be taken with caution and come with the following limitations: The World Bank Doing Business indicators, from which the distance to frontier scores are derived, measure de jure business regulation facing domestic small and medium-size firms, usually using the largest city to represent the economy. The World Economic Forum Global Competitiveness Index are partly based on opinion survey of business executives. The OECD FDI restrictiveness index captures stated regulatory restrictions in national documents, and the Trade Facilitation Indicators are partly based on survey data.

## Table 1. Philippines: Selected Economic Indicators, 2015–20

Demographic: Population (2018): 106.6 million; Life expectancy at birth (2017): 69
Poverty (2015, percent of population): Below $1.90 a day: 6.1; Below the national poverty line: 21.6
Inequality (2015, income shares): Top 10 percent: 34.8; Bottom 20 percent: 5.7
Business environment (2019 country ranking): Ease of doing business: 95 (out of 190); Starting a business: 171 (out of 190)
IMF quota: SDR 2,042.9 million
Main products and exports: electronics, agriculture products, and business process outsourcing

| | 2015 | 2016 | 2017 | 2018 | 2019 Proj. | 2020 Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National account | | | | | | |
| Real GDP | 6.1 | 6.9 | 6.7 | 6.2 | 5.7 | 6.3 |
| Consumption | 6.5 | 7.4 | 5.9 | 6.5 | 6.5 | 6.6 |
| Private | 6.3 | 7.1 | 5.9 | 5.6 | 5.9 | 6.2 |
| Public | 7.6 | 9.0 | 6.2 | 13.0 | 10.0 | 9.3 |
| Gross fixed capital formation | 16.9 | 26.1 | 9.4 | 12.9 | 5.3 | 15.6 |
| Domestic demand | 8.7 | 11.7 | 6.8 | 8.2 | 6.1 | 9.1 |
| Net exports (contribution to growth) | -3.1 | -4.9 | -0.7 | -2.8 | -1.1 | -3.8 |
| Real GDP per capita | 4.3 | 5.1 | 5.0 | 4.6 | 4.0 | 4.6 |
| Output gap (percent, +=above potential) | -0.3 | 0.1 | 0.4 | 0.2 | -0.2 | -0.1 |
| Labor market | | | | | | |
| Unemployment rate (percent of labor force) | 6.3 | 5.5 | 5.7 | 5.3 | 5.2 | 5.1 |
| Underemployment rate (percent of employed persons) | 18.6 | 18.3 | 16.1 | 16.4 | 14.0 | ... |
| Employment (percent change) | 2.8 | 4.7 | -1.6 | 2.0 | 2.4 | 2.5 |
| Non-agriculture daily wages (Q4/Q4) 1/ | 3.2 | 2.1 | 4.3 | 4.9 | 0.0 | ... |
| Price | | | | | | |
| Consumer prices (period average, 2012 basket) | 0.7 | 1.3 | 2.9 | 5.2 | 2.5 | 2.6 |
| Consumer prices (end of period, 2012 basket) | 0.7 | 2.2 | 2.9 | 5.1 | 2.5 | 3.0 |
| Core consumer prices (period average, 2012 basket) | 1.1 | 1.5 | 2.5 | 4.1 | 3.2 | ... |
| Residential real estate (Q4/Q4) 2/ | ... | 3.3 | 5.7 | 0.6 | 10.4 | ... |
| Money and credit | | | | | | |
| 3-month PHIREF rate (percent, end of period) 3/ | 2.7 | 2.0 | 3.3 | 6.5 | 3.1 | ... |
| Claims on private sector (percent of GDP) | 41.8 | 44.8 | 47.8 | 49.9 | 50.7 | 52.6 |
| Claims on private sector (percent change) | 12.4 | 16.4 | 16.4 | 15.1 | 8.6 | 13.2 |
| Public finances (in percent of GDP) | | | | | | |
| National government overall balance 4/ | -0.9 | -2.4 | -2.2 | -3.3 | -2.7 | -3.2 |
| Revenue and grants | 15.8 | 15.2 | 15.6 | 16.3 | 16.5 | 16.7 |
| Total expenditure and net lending | 16.7 | 17.6 | 17.9 | 19.6 | 19.2 | 19.9 |
| General government gross debt | 41.5 | 39.0 | 39.9 | 38.9 | 38.9 | 38.9 |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account balance | 2.5 | -0.4 | -0.7 | -2.6 | -1.6 | -2.3 |
| FDI, net | 0.0 | -1.9 | -2.2 | -1.8 | -1.4 | -1.4 |
| Gross reserves (US$ billions) | 80.7 | 80.7 | 81.6 | 79.2 | 85.6 | 85.0 |
| Gross reserves (percent of short-term debt, residual maturity) | 409.5 | 418.2 | 419.3 | 369.7 | 402.2 | 385.0 |
| Total external debt | 26.5 | 24.5 | 23.3 | 23.9 | 23.6 | 22.4 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 292.8 | 304.9 | 313.6 | 330.9 | 365.0 | 399.7 |
| Nominal GDP per capita (US$) | 2,883 | 2,953 | 2,989 | 3,104 | 3,370 | 3,632 |
| GDP (in billions of pesos) | 13,322 | 14,480 | 15,808 | 17,426 | 18,614 | 20,302 |
| Real effective exchange rate (2005=100) | 111.4 | 108.2 | 103.4 | 100.5 | ... | ... |
| Peso per U.S. dollar (period average) | 45.5 | 47.5 | 50.4 | 52.7 | 51.8 | ... |

Sources: Philippine authorities; World Bank; and IMF staff estimates and projections.

1/ In National Capital Region.
2/ Latest observation as of 2019:Q3.
3/ Benchmark rate for the peso floating leg of a 3-month interest rate swap.
4/ IMF definition. Excludes privatization receipts and includes deficit from restructuring of the previous Central Bank-Board of Liquidators.

## Table 2. Philippines: National Government Cash Accounts, 2015–20

(In percent of GDP, unless otherwise indicated)

| | 2015 | 2016 | 2017 | 2018 | 2019 Proj. | 2020 Proj. |
|---|---|---|---|---|---|---|
| Revenue and grants | 15.8 | 15.2 | 15.6 | 16.3 | 16.5 | 16.7 |
| Tax revenue | 13.6 | 13.7 | 14.2 | 14.7 | 15.0 | 15.3 |
| Net income and profits | 6.4 | 6.4 | 6.5 | 5.9 | 6.0 | 6.0 |
| Excises | 1.4 | 1.4 | 1.7 | 2.2 | 2.3 | 2.4 |
| VAT | 4.2 | 4.2 | 4.4 | 4.4 | 4.1 | 4.3 |
| Tariffs | 0.4 | 0.4 | 0.4 | 0.5 | 0.7 | 0.7 |
| Other 1/ | 1.2 | 1.2 | 1.2 | 1.7 | 1.8 | 1.9 |
| Nontax revenue | 1.7 | 1.5 | 1.4 | 1.5 | 1.5 | 1.4 |
| Expenditure and net lending | 16.7 | 17.6 | 17.9 | 19.6 | 19.2 | 19.9 |
| Current expenditures | 13.4 | 13.2 | 13.4 | 14.0 | 14.2 | 14.4 |
| Personnel services | 5.0 | 5.0 | 5.1 | 5.7 | 5.9 | 6.0 |
| Maintenance and operations | 3.0 | 2.9 | 2.9 | 3.0 | 3.0 | 3.0 |
| Allotments to LGUs | 2.3 | 2.4 | 2.5 | 2.4 | 2.4 | 2.6 |
| Subsidies | 0.6 | 0.7 | 0.8 | 0.8 | 0.7 | 0.7 |
| Tax expenditure | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Interest | 2.3 | 2.1 | 2.0 | 2.0 | 2.0 | 2.0 |
| Capital and equity expenditure | 3.3 | 4.3 | 4.5 | 5.5 | 5.0 | 5.5 |
| Capital expenditure | 3.3 | 4.2 | 4.5 | 5.5 | 4.9 | 5.5 |
| Equity | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Net lending | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Balance | -0.9 | -2.4 | -2.2 | -3.3 | -2.7 | -3.2 |
| On the authorities' presentation 2/ | -0.9 | -2.4 | -2.2 | -3.2 | -2.7 | -3.2 |
| Financing | 1.4 | 2.4 | 2.2 | 3.3 | 2.7 | 3.2 |
| External financing (net) | 0.1 | -0.2 | 0.2 | 1.1 | 1.0 | 0.8 |
| Domestic financing (net) | 2.0 | 0.3 | 3.2 | 1.9 | 2.3 | 2.5 |
| Change in cash (negative=accumulation) | -1.1 | 2.3 | -1.1 | 0.2 | -0.5 | -0.1 |
| Privatization | 0.5 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| Memorandum items: | | | | | | |
| Cyclically-adjusted primary balance 3/ | 1.0 | -0.4 | -0.3 | -1.3 | -0.7 | -1.2 |
| Structural primary balance 3/ | 1.2 | -0.2 | -0.3 | -1.4 | -0.7 | -1.2 |
| Gross financing requirement 4/ | 5.6 | 7.6 | 6.4 | 7.5 | 7.6 | 8.3 |
| National government gross debt 5/ | 44.7 | 42.1 | 42.1 | 41.8 | 41.9 | 41.8 |
| Domestic | 29.2 | 27.2 | 28.1 | 27.4 | 27.9 | 28.1 |
| External | 15.5 | 14.9 | 14.0 | 14.4 | 13.9 | 13.7 |
| GDP (in billions of pesos) | 13,322 | 14,480 | 15,808 | 17,426 | 18,614 | 20,302 |

Sources: Philippine authorities; and IMF staff projections.

1/ Includes other percentage taxes, documentary stamp tax, and non-cash collections.
2/ Includes privatization receipts as revenue and excludes the operations of the Central Bank-Board of Liquidators.
3/ In percent of potential GDP. Compared to the cyclically-adjusted balance, the structural balance also controls for the effect of cyclical fluctuations of the peso on revenue.
4/ Defined as the sum of deficit, amortization of medium- and long-term debt, and the stock of outstanding short-term debt.
5/ Includes national government debt held by the bond sinking fund and excludes contingent/guaranteed debt.

## Table 3. Philippines: General Government Operations, 2015–20 1/

(In percent of GDP, unless otherwise indicated)

| | 2015 | 2016 | 2017 | 2018 | 2019 Proj. | 2020 Proj. |
|---|---|---|---|---|---|---|
| Revenue | 19.4 | 19.1 | 19.6 | 20.2 | 20.4 | 20.6 |
| Taxes | 14.5 | 14.6 | 15.1 | 15.7 | 15.9 | 16.2 |
| Taxes on income, profits, and capital gains | 6.4 | 6.4 | 6.5 | 5.9 | 6.0 | 6.0 |
| Taxes on goods and services | 6.6 | 6.6 | 7.1 | 7.8 | 7.7 | 8.0 |
| Taxes on international trade and transactions | 0.4 | 0.4 | 0.4 | 0.5 | 0.7 | 0.7 |
| Taxes not elsewhere classified | 1.2 | 1.2 | 1.2 | 1.4 | 1.6 | 1.5 |
| Social contributions | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenue | 2.5 | 2.2 | 2.1 | 2.2 | 2.2 | 2.1 |
| Total expenditure | 18.8 | 19.5 | 20.0 | 21.8 | 21.6 | 22.2 |
| Expense | 15.1 | 14.9 | 15.1 | 15.9 | 16.2 | 16.4 |
| Compensation of employees 2/ | 5.0 | 5.0 | 5.1 | 5.7 | 5.9 | 6.0 |
| Purchases/use of goods and services 2/ | 3.0 | 2.9 | 2.9 | 3.0 | 3.0 | 3.0 |
| Interest 2/ | 2.1 | 1.8 | 1.7 | 1.7 | 1.8 | 1.7 |
| Social benefits | 2.2 | 2.2 | 2.4 | 2.5 | 2.7 | 2.8 |
| Expense not elsewhere classified | 2.8 | 2.9 | 2.9 | 3.0 | 2.8 | 2.8 |
| Net acquisition of nonfinancial assets | 3.7 | 4.6 | 4.9 | 5.9 | 5.3 | 5.8 |
| Net lending/borrowing | 0.6 | -0.4 | -0.4 | -1.5 | -1.1 | -1.6 |
| Memorandum items: | | | | | | |
| Primary balance | 2.7 | 1.5 | 1.3 | 0.2 | 0.6 | 0.2 |
| General government gross debt 3/ | 41.5 | 39.0 | 39.9 | 38.9 | 38.9 | 38.9 |
| Domestic | 26.0 | 24.1 | 25.9 | 24.5 | 25.0 | 25.2 |
| Foreign | 15.5 | 14.9 | 14.0 | 14.4 | 13.9 | 13.7 |
| GDP (in billions of pesos) | 13,322 | 14,480 | 15,808 | 17,426 | 18,614 | 20,302 |

Sources: Philippine authorities; and IMF staff projections.

1/ Based on GFSM2001. General government includes the national government, social security institutions (SSIs), and local government units (LGUs).

2/ National government only. The expense item related to SSIs and LGUs are not separately available and included under "Expense not elsewhere classified."

3/ Includes national government debt held by the bond sinking fund and excludes contingent/guaranteed debt.

## Table 4. Philippines: Depository Corporation Survey, 2015–19 1/

(End of period, in billions of pesos, unless otherwise indicated)

| | 2015 | 2016 | 2017 | 2018 | 2019 Sept. |
|---|---|---|---|---|---|
| Total | | | | | |
| Net foreign assets | 3,999 | 4,309 | 4,403 | 4,461 | 4,831 |
| Net domestic assets | 5,890 | 6,897 | 8,083 | 9,149 | 9,204 |
| Net claims on nonfinancial public sector | 1,610 | 1,941 | 1,994 | 2,249 | 2,261 |
| Claims on private sector | 5,564 | 6,475 | 7,551 | 8,687 | 8,959 |
| Net claims on other financial corporations | 294 | 480 | 921 | 1,084 | 1,152 |
| Broad money | 9,889 | 11,207 | 12,487 | 13,610 | 14,035 |
| National currency | 8,409 | 9,478 | 10,636 | 11,643 | 12,037 |
| Foreign currency | 1,480 | 1,729 | 1,851 | 1,968 | 1,998 |
| Bangko Sentral ng Pilipinas | | | | | |
| Net foreign assets | 3,763 | 3,947 | 4,004 | 4,089 | 4,364 |
| Net domestic assets | -1,293 | -1,187 | -864 | -746 | -1,271 |
| Claims on private sector | 0 | 0 | 0 | 0 | 0 |
| Net claims on financial corporations | -1,065 | -999 | -384 | -232 | -391 |
| Base money | 2,467 | 2,758 | 3,137 | 3,338 | 3,091 |
| Currency in circulation | 1,005 | 1,124 | 1,267 | 1,490 | 1,387 |
| Other depository corporations liabilities | 1,456 | 1,632 | 1,867 | 1,847 | 1,704 |
| Other liquid liabilities | 3 | 2 | 3 | 5 | 3 |
| Other depository corporations | | | | | |
| Net foreign assets | 236 | 363 | 400 | 372 | 467 |
| Net domestic assets | 8,853 | 9,919 | 11,034 | 12,000 | 12,384 |
| Net claims on nonfinancial public sector | 1,720 | 1,696 | 1,935 | 2,034 | 2,400 |
| Claims on private sector | 5,564 | 6,486 | 7,551 | 8,687 | 8,959 |
| Net claims on financial corporations | 3,036 | 3,324 | 3,401 | 3,424 | 3,461 |
| Liquid liabilities | 9,089 | 10,282 | 11,434 | 12,373 | 12,851 |
| Memorandum items: | | | | | |
| Broad money (percent change) | 9.2 | 13.3 | 11.4 | 9.0 | 7.0 |
| Claims on private sector (percent change) | 12.1 | 16.4 | 16.4 | 15.1 | 7.6 |
| Broad money (in percent of GDP) | 74.2 | 77.4 | 79.0 | 78.1 | 75.4 |
| Claims on private sector (percent of GDP) | 41.8 | 44.8 | 47.8 | 49.9 | 48.1 |
| Nominal GDP | 13,322 | 14,480 | 15,808 | 17,426 | 18,614 |

Sources: IMF, *International Financial Statistics,* and IMF staff projections.

1/ It includes the Bangko Sentral ng Pilipinas (BSP), the accounts of the Central Government arising from its holdings of transactions with the International Monetary Fund, and Other Depository Corporations such as universal and commercial banks, thrift banks, rural banks, non-stock savings and loan associations and nonbanks with quasi-banking functions.

## Table 5. Philippines: Balance of Payments, 2015–20

(In BPM6, billions of U.S. dollars, unless otherwise indicated)

| | 2015 | 2016 | 2017 | 2018 | 2019 Proj. | 2020 Proj. |
|---|---|---|---|---|---|---|
| Current account balance | 7.3 | -1.2 | -2.1 | -8.7 | -5.7 | -9.1 |
| Trade balance of goods and services | -17.9 | -28.5 | -31.5 | -39.3 | -38.4 | -43.2 |
| Goods | -23.3 | -35.5 | -40.2 | -51.0 | -52.2 | -59.5 |
| Exports, f.o.b. | 43.2 | 42.7 | 51.8 | 52.0 | 53.3 | 57.9 |
| Imports, f.o.b. | 66.5 | 78.3 | 92.0 | 103.0 | 105.5 | 117.5 |
| Services | 5.5 | 7.0 | 8.7 | 11.6 | 13.8 | 16.3 |
| Receipts | 29.1 | 31.2 | 34.8 | 38.4 | 41.2 | 44.4 |
| Payments | 23.6 | 24.2 | 26.1 | 26.8 | 27.5 | 28.1 |
| Primary income, net | 1.9 | 2.6 | 3.2 | 3.8 | 5.0 | 5.4 |
| Receipts from resident workers abroad | 7.8 | 7.5 | 7.9 | 8.3 | 8.9 | 9.4 |
| Secondary income, net | 23.3 | 24.7 | 26.2 | 26.8 | 27.6 | 28.7 |
| Recepits from nonresident workers remittances | 21.5 | 23.2 | 24.1 | 24.8 | 27.4 | 29.2 |
| Payments | 0.8 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 |
| Capital account | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Financial account 1/ | 2.3 | 0.2 | -2.8 | -8.6 | -11.2 | -7.9 |
| Direct investment | -0.1 | -5.9 | -7.0 | -5.9 | -5.3 | -5.7 |
| Portfolio investment | 5.5 | 1.5 | 2.5 | 1.4 | -4.0 | -1.6 |
| Financial derivatives | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 |
| Other investment | -3.1 | 4.6 | 1.7 | -4.1 | -1.9 | -0.6 |
| Errors and omissions | -2.4 | 0.3 | -1.6 | -2.3 | 0.0 | 0.0 |
| Overall balance | 2.6 | -1.0 | -0.9 | -2.3 | 5.5 | -1.1 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 293 | 305 | 314 | 331 | 365 | 400 |
| Current account (percent of GDP) | 2.5 | -0.4 | -0.7 | -2.6 | -1.6 | -2.3 |
| Short-term debt (original maturity) | 15.1 | 14.5 | 14.3 | 16.1 | 15.6 | 16.4 |
| Short-term debt (residual maturity) | 19.7 | 19.3 | 19.5 | 21.4 | 21.3 | 22.1 |
| Gross reserves | 80.7 | 80.7 | 81.6 | 79.2 | 85.6 | 85.0 |
| External debt (US$ billions) | 77.5 | 74.8 | 73.1 | 79.0 | 86.3 | 89.7 |
| External debt (percent of GDP) | 26.5 | 24.5 | 23.3 | 23.9 | 23.6 | 22.4 |

Sources: Philippine authorities; and Fund staff projections.

1/ An increase in either assets or liabilities is positive and a decrease is negative. Net investment is assets minus liabilities. A negative financial account balance means that the change in liabilities is greater than the change in assets.

## Table 6. Philippines: Medium-Term Outlook, 2018–24

(In percent of GDP, unless otherwise indicated)

| | 2018 | 2019 Proj. | 2020 Proj. | 2021 Proj. | 2022 Proj. | 2023 Proj. | 2024 Proj. |
|---|---|---|---|---|---|---|---|
| GDP and prices | | | | | | | |
| Real GDP (percent change) | 6.2 | 5.7 | 6.3 | 6.4 | 6.5 | 6.5 | 6.5 |
| CPI (percent change, annual average) | 5.2 | 2.4 | 2.6 | 3.1 | 3.0 | 3.0 | 3.0 |
| GDP by expenditure | | | | | | | |
| Consumption (percent change) | 6.5 | 6.5 | 6.6 | 6.5 | 6.5 | 6.5 | 6.5 |
| Private | 5.6 | 5.9 | 6.2 | 6.4 | 6.4 | 6.5 | 6.4 |
| Public | 13.0 | 10.0 | 9.3 | 7.0 | 7.0 | 7.0 | 7.0 |
| Gross fixed investment (percent change) | 12.9 | 5.3 | 15.6 | 13.0 | 9.0 | 8.0 | 8.0 |
| Net exports (contribution to growth) | -2.8 | -1.1 | -3.8 | -3.1 | -1.9 | -1.6 | -1.7 |
| Investment and saving | | | | | | | |
| Gross investment | 26.9 | 27.2 | 29.7 | 31.5 | 32.2 | 32.7 | 33.2 |
| Private | 21.7 | 22.5 | 24.4 | 26.1 | 26.8 | 27.3 | 27.7 |
| Public | 5.2 | 4.8 | 5.3 | 5.3 | 5.4 | 5.4 | 5.6 |
| National saving | 24.3 | 25.6 | 27.4 | 29.3 | 30.1 | 30.7 | 31.2 |
| Private | 20.2 | 21.6 | 23.3 | 24.9 | 25.5 | 25.9 | 26.4 |
| Public | 4.1 | 4.0 | 4.1 | 4.3 | 4.6 | 4.8 | 4.8 |
| Public finances | | | | | | | |
| National government balance | -3.3 | -2.7 | -3.2 | -3.2 | -3.2 | -3.2 | -3.2 |
| Total revenue | 16.3 | 16.5 | 16.7 | 16.9 | 17.0 | 17.1 | 17.1 |
| Total expenditure and net lending | 19.6 | 19.2 | 19.9 | 20.1 | 20.2 | 20.3 | 20.3 |
| General government gross debt | 38.9 | 38.9 | 38.9 | 38.5 | 38.2 | 37.8 | 37.5 |
| External sector | | | | | | | |
| Trade balance of goods and services | -11.6 | -11.3 | -11.1 | -10.8 | -10.4 | -9.9 | -9.5 |
| Current account | -2.6 | -1.6 | -2.3 | -2.2 | -2.1 | -2.0 | -2.0 |
| Reserves (US$ billions) | 79.2 | 85.6 | 85.0 | 83.8 | 82.7 | 81.7 | 79.9 |
| Reserves/short-term liabilities 1/ | 364.5 | 402.2 | 385.0 | 365.6 | 354.1 | 334.8 | 313.9 |
| Total external debt | 23.9 | 23.6 | 22.4 | 21.5 | 20.6 | 19.8 | 19.1 |
| Monetary sector: | | | | | | | |
| Credit to private sector 2/ | 49.9 | 50.7 | 52.6 | 54.7 | 55.6 | 55.8 | 55.4 |
| Credit to private sector (percent change) 2/ | 15.1 | 8.6 | 13.2 | 14.0 | 11.4 | 10.3 | 8.9 |

Sources: Philippine authorities; and IMF staff projections.

1/ Remaining maturity basis.

2/ Based on the depository corporations survey. In addition to universal and commercial banks, it includes thrift banks, rural banks, non-stock savings and loan associations and non-banks with quasi-banking functions.

**Table 7. Philippines: Financial Soundness Indicators, 2015–19**

(In percent)

| | 2015 | 2016 | 2017 | 2018 | 2019:Q2 |
|---|---|---|---|---|---|
| Capital adequacy | | | | | |
| Regulatory capital to risk-weighted assets | 15.3 | 14.5 | 14.4 | 14.9 | 15.3 |
| Regulatory Tier-1 capital to risk-weighted assets | 12.8 | 12.6 | 12.7 | 13.3 | 13.9 |
| Capital to total assets | 10.0 | 9.7 | 10.0 | 10.7 | 11.1 |
| Nonperforming Loans Net of Provisions to Capital | 3.1 | 3.0 | 3.1 | 3.5 | 4.9 |
| Net open position in foreign exchange to capital | 2.4 | 2.0 | 7.9 | 4.7 | 5.0 |
| Gross asset position in financial derivatives to capital | 1.7 | 1.8 | 1.6 | 1.8 | 1.6 |
| Gross liability position in financial derivatives to capital | 0.0 | 0.0 | 0.0 | 0.1 | 0.4 |
| Asset quality | | | | | |
| Nonperforming loans to total gross loans | 1.9 | 1.7 | 1.6 | 1.7 | 2.0 |
| Specific provisions to nonperforming loans | 70.1 | 69.7 | 66.9 | 63.2 | 55.6 |
| Earnings and profitability | | | | | |
| Return on assets | 1.4 | 1.3 | 1.3 | 1.3 | 1.5 |
| Return on equity | 13.8 | 13.7 | 13.6 | 12.7 | 13.7 |
| Interest margin to gross income | 70.7 | 69.2 | 73.9 | 75.2 | 73.9 |
| Trading income to gross income | 5.7 | 8.3 | 4.3 | 3.2 | 7.0 |
| Noninterest expenses to gross income | 61.3 | 60.8 | 60.9 | 62.2 | 58.1 |
| Personel expenses to noninterest expenses | 37.6 | 36.7 | 36.6 | 35.4 | 34.3 |
| Liquidity and funding | | | | | |
| Liquid assets to total assets | 38.8 | 35.6 | 32.9 | 32.6 | 31.1 |
| Liquid assets to short-term liabilities | 60.6 | 54.6 | 51.8 | 50.7 | 47.6 |
| Non-interbank loans to customer deposits | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Sensitivity to market risk | | | | | |
| Foreign currency denominated loans to total loans | 11.9 | 11.9 | 11.1 | 10.9 | 11.2 |
| Foreign currency denominated liabilities to total liabilities | 20.3 | 20.7 | 20.2 | 20.1 | 20.0 |
| Real estate markets | | | | | |
| Residential real estate loans to total loans | 7.2 | 7.3 | 7.2 | 7.1 | 7.3 |
| Commercial real estate loans to total loans | 13.9 | 14.3 | 14.1 | 12.3 | 12.8 |

Sources: Philippine authorities; IMF, *Financial Soundness Indicators*; and IMF staff estimates.

## Table 8. Philippines: Indicators of External Vulnerability, 2014–19

(In percent of GDP, unless otherwise indicated)

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 Q2 |
|---|---|---|---|---|---|---|
| External indicators (including external liquidity) | | | | | | |
| Gross international reserves (US$ billions) | 79.5 | 80.7 | 80.7 | 81.6 | 79.2 | 84.9 |
| Maturing short-term debt (US$ billions) | 16.2 | 15.1 | 14.5 | 14.3 | 16.1 | 15.6 |
| Amortization of medium and long-term debt (US$ billions) | 3.6 | 3.0 | 4.6 | 4.8 | 5.2 | … |
| Net FDI inflows (in BPM6, US$ billions) | 1.0 | -0.1 | -5.9 | -7.0 | -5.9 | -1.8 |
| FX deposits residents (US$ billions) | 32.1 | 32.7 | 36.1 | 39.5 | 40.2 | 41.7 |
| Total gross external debt | 27.3 | 26.5 | 24.5 | 23.3 | 23.9 | 22.3 |
| | | | | | | |
| Fiscal indicators | | | | | | |
| National government overall balance | -0.6 | -0.9 | -2.4 | -2.2 | -3.3 | -0.2 1/ |
| National government cyclically-adjusted primary balance | 1.7 | 1.0 | -0.4 | -0.3 | -1.3 | … |
| Net debt denominated in FX or linked to the exchange rate (in percent of total) | 31.9 | 33.0 | 33.3 | 30.8 | 33.1 | … |
| Average effective interest rate of general government debt (in percent) | 6.0 | 5.6 | 5.2 | 5.1 | 5.1 | … |
| Amortization of total general government debt | 4.0 | 4.3 | 5.7 | 4.7 | 5.6 | … |

Sources: Philippine authorities; and IMF staff estimates.

1/ Cumulative over Q1-Q2. In percent of projected annual GDP.

## Table 9. Philippines: 2018 Article IV Recommendations and Related Policy Actions

| 2018 Article IV Recommendations | Related Policy Actions |
|---|---|
| **Fiscal Policy** | |
| Maintain a neutral fiscal stance over 2018-2019, which implies a fiscal deficit of 2.4 percent of GDP in 2018 and 2.5 percent in 2019. | The fiscal stance in 2018 was expansionary with a deficit of 3.3 percent of GDP (excluding privatization receipts). |
| Scale up public investment in infrastructure and human capital. | The national government's infrastructure spending increased to 5.1 percent of GDP in 2018 from 4.4 percent in 2017. |
| Reform the tax system and administration to raise additional revenue. | The first package of the Comprehensive Tax Reform Program ("TRAIN") has been implemented since January 2018, which is expected to generate about 0.5 percent of GDP additional revenue in 2018 from excise tax increases, VAT base broadening, and administrative measures. Other tax reform packages have also been submitted to Congress, including a bill aimed at streamlining tax incentives. |
| **Monetary Policy** | |
| Continued fine-tunings of monetary operations. | The reserve requirement ratio (RRR) was cut to 14 percent (from 18 percent by end-2018) to strengthen the role of policy rate as the main policy instrument. The RRR reductions were conducted when inflation rates were moderate and communication costs were low. There were, however, no changes to reserve maintenance period. |
| Further monetary policy tightening to anchor inflation expectations is needed. | The BSP increased the policy rate by 1.75 percent in 2018 as inflation expectations were above the BSP's target. The BSP lowered its policy rate by 0.75 percent in 2019 as inflation pressure moderated. |
| **Macroprudential Policy** | |
| Introduce the countercylical capital buffer (CCyB) for banks at above zero, while clearly communicating with market participants regarding the methodology and the set of indicators that will be used to calibrate the CCyB. | The framework for CCyB was introduced in December 2018. The uniformly applicable rate of the CCyB is set at zero. CCyB decisions will be based on a set of indicators including, but not limited to, the credit-to-GDP gap as well as the growth and quality of credit. |
| Collect more granular data on real estate and project finance. | From June 2018, all banks need to report information on their real estate loans to mid- and high-end housing units and submit a report on project finance exposures including the type of the infrastructure project and project phase. |
| **Structural Policy** | |
| Lift or ease legal and administrative restrictions on inward FDI, including by shortening the Foreign Investment Negative List (FINL). | The Ease of Doing Business and Efficient Government Service Delivery Act of 2018 was signed into law in May 28 2018 with its implementing rules and regulations signed in July 2019. The Anti-Red Tape Authority has been created to oversee the implementation of the law.<br>The 11th FINL was promulgated in October 2018, which eases foreign investment restrictions in several areas including internet businesses, high-level education, and private communication networks. |
| Eliminate quantitative restrictions on rice imports. | The Rice Tariffication Law was signed into law in February 2019, which replaced the quantitative restrictions on rice imports with tariffs. The Rice Competitiveness Enhancement Fund has been established under the law, which aims to enhance the productivity of the rice sector and support farmers affected by the law. |
| Promote financial inclusion. | Several initiatives were implemented in 2018 to foster financial inclusion, including the approval of a framework for banks to offer Basic Deposit Accounts—which features simplified customer identify requirements and no minimum maintaining balance, and the passage of the Personal Property Security law—which allows the use of accounts receivables, inventory, crops, livestock, and other movable assets as collateral. |
| Increase investment in ICT infrastructure. | In July 2019, the government announced the selection of a new major telecom company, thereby ending the long-standing duopoly in the domestic telecommunication industry. |

# Appendix I. Risk Assessment Matrix

**Risk Assessment Matrix 1/**

| Source of Risk | Location of Source | Relative Likelihood | Time Horizon | Expected Impact | Direction of Impact | Inputs for Assessment | Main Impacts → Recommended Policy Actions |
|---|---|---|---|---|---|---|---|
| Sharp rise in risk premia 2/ | External | H | ST | M – H | ↓ | DSGE simulation (2017 Selected Issues 5/) | Higher cost of financing, exchange rate depreciation, and depreciation pass-through to inflation, weaker domestic demand.<br>→ Allow the exchange rate to adjust fully with orderly market conditions and increase infrastructure investment and social spending if domestic demand weakens significantly. |
| Rising protectionism and retreat from multilateralism 3/ | External | H | ST, MT | M | ↓ | Staff analysis (2019 Selected Issues) | Slower export growth and weaker FDI inflows, resulting in reduced technology spillovers and lower potential growth.<br>→ Effectively implement the ease of doing business law and remove barriers to trade and inward FDIs (Figure 8).<br>→ Use monetary and fiscal policy as appropriate to mitigate cyclical effects in the transition to lower potential growth. |
| Weaker-than-expected global growth 4/ | External | M/H | ST, MT | M | ↓ | | Slower export growth and weaker confidence, with spillovers to domestic demand growth and, most likely, exchange rate depreciation.<br>→ Allow the exchange rate to adjust fully with orderly market conditions. Use monetary and fiscal policy as appropriate to dampen negative impact on aggregate demand. |
| Higher frequency and severity of natural disasters | Domestic | H | ST, MT | M – H | ↓ | Staff analysis (2019 Selected Issues) | Poor agriculture production, damage to properties, and higher food inflation, with especially larger impacts on low-income households in rural areas.<br>→ Increase public investment in weather-related infrastructure and use fiscal space if shocks materialize. |
| Successful implementation of structural reforms | Domestic | M | MT | M | ↑ | | Lower product prices due to increased competition and productivity, and more investment from domestic and foreign firms, leading to more jobs and lower poverty.<br>→ Enhance the implementation capacity and provide adequate support to those negatively affected by these reforms during the transition phase. |

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low (L)" is meant to indicate a probability below 10 percent, "medium (M)" a probability between 10 and 30 percent, and "high (H)" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.
2/ An abrupt deterioration in market sentiment (e.g., prompted by policy surprises, renewed stresses in emerging markets, or a disorderly Brexit) could trigger risk-off events such as recognition of underpriced risk. Higher risk premia cause higher debt service and refinancing risks; stress on leveraged firms, households, and vulnerable sovereigns; disruptive corrections to stretched asset valuations; and capital account pressures—all depressing growth.
3/ In the near term, escalating and unpredictable trade actions and a WTO dispute settlement system under threat imperil the global trade system and international cooperation. Additional barriers, including investment and trade restrictions in technology sectors, and the threat of new actions reduce growth both directly, and through adverse confidence effects and financial market volatility. In the medium term, geopolitical competition, protracted tensions, and fraying consensus about the benefits of globalization lead to economic fragmentation and undermine the global rules-based order, with adverse effects on investment, growth, and stability.
4/ Idiosyncratic factors in the United States, Europe, China, and stressed emerging markets could feed off each other and lead to a synchronized and prolonged growth slowdown, with spillovers to the rest of the world.
5/ "2017 Selected Issues" refers to IMF Country Report No. 17/335.

# Appendix II. External Sector Assessment

*The external position in 2018 was broadly in line with the level implied by fundamentals and desirable policies. Preliminary EBA results suggest that this assessment remains relevant for 2019. While the overall policy gap is estimated to be small, a more proactive use of macroprudential policy for domestic reasons, given the risks of high credit growth resuming, would also have beneficial effects on external financing risks.*

### Foreign Asset and Liability Position

**1.** *Background*. The net international investment position (NIIP) was −16 percent of GDP by end-2018, slightly lower than the position by end-2017 (−14 percent of GDP). External assets and liabilities were 53 percent and 68 percent of GDP, respectively. Reserves held by the BSP accounted for about 45 percent of the total external assets. Key components of external liabilities included FDI liabilities (25 percent of GDP) and portfolio investment (26 percent of GDP). Government external debt was about 12 percent of GDP.

**2.** *Assessment*. The structure of the external balance sheet, especially the large share of FDI liabilities in total external liabilities and ample reserves, entails relatively low vulnerabilities.

### Current Account

**3.** *Background*. The current account balance has been on a declining path, from an average of 3.2 percent of GDP during 2010−2015 to −0.7 percent of GDP in 2017, and −2.6 percent of GDP in 2018. The decline is largely explained by the widening deficits for trade in goods, as the balances in other accounts (services, primary and secondary income) were on a modest upward path. From the saving-investment (S-I) balance perspective, the rising current account deficits ultimately reflect the strong investment growth, as aggregate gross savings have been rising. On the sectoral level, the declining (S-I) balances are mostly explained by the rising investment in the general government sector and the declining gross savings in the household sector, while the higher investment in the corporate sector has been broadly matched with the changes in gross savings.

**Saving and Investment Balance**
(In percent of GDP)

Source: Philippines Statistics Authority.

**Flow of Funds**
(In percent of GDP)

| | | 2014 | 2015 | 2016 | 2017 | 2018 | Change, 2014–17 |
|---|---|---|---|---|---|---|---|
| Savings | General Government | 3.7 | 3.8 | 3.8 | 4.2 | | 0.5 |
| | Household | 5.4 | 4.8 | 4.2 | 4 | | -1.4 |
| | Corporate | 15.2 | 15.2 | 16 | 16.3 | | 1.1 |
| | Total | 24.4 | 23.7 | 24.0 | 24.5 | 24.3 | 0.1 |
| Investment | General Government | 2.6 | 5.0 | 5.6 | 5.7 | | 3.1 |
| | Household | 4.3 | 4.4 | 4.6 | 5.0 | | 0.7 |
| | Corporate | 13.6 | 11.8 | 14.2 | 14.5 | | 0.9 |
| | Total | 20.5 | 21.2 | 24.4 | 25.2 | 26.9 | 4.7 |
| CA= S-I | Total | 3.8 | 2.5 | -0.4 | -0.7 | -2.6 | -4.6 |

Source: Bangko Sentral ng Pilipinas.

**4.** *Assessment*. The external positions in 2018 and 2019 were broadly in line with the level implied by medium-term fundamentals and desirable policies.

**5.** The cyclically adjusted CA norm in 2018, estimated using the EBA model (adjusted for high mortality risk), was −2.2 percent of GDP.[1] The standard error of this estimation was 1.4 percent of GDP. The cyclically-adjusted CA balance in 2018 was estimated at −2.6 percent of GDP. The CA gap, measured by the difference between the cyclically-adjusted CA balance and the CA norm, was about −0.4 percent of GDP. The overall identified policy gap was −0.1 percent of GDP.

**6.** The current account balance for 2019 was not available at the time the report was prepared. Based on the projected current account balance in 2019 (−1.6 percent of GDP) and its norm (−2.1 percent of GDP), the assessment is unlikely to change from 2018.

**7.** Although the overall policy gap is minimum, the expansionary fiscal policy since 2016 contributed to the widening of CA deficits by about 0.5−0.7 percent of GDP.[2] The declining gross savings of the household sector, which is concerning to some extent, is likely to be attributed to the relatively open cross-border capital market in the Philippines and the low domestic and global interest rate environment in previous years, which would discourage household savings and encourage borrowings.[3]

**Real Exchange Rate**

**8.** *Background*. The peso depreciated by 2.8 percent in real effective terms in 2018, and by 6 percent in nominal effective terms. The depreciation mainly reflects the role of the floating peso as a shock absorber, given the widening current account deficit and the regional capital outflow pressure in 2018.

[1] The benchmark EBA model estimates cyclically adjusted CA norm at -0.8 percent of GDP. The difference between the benchmark EBA model and the model adjusted for high mortality risk is the set of demographic variables used in the regression. The benchmark EBA model uses the share of prime savers (ages 45−64) as one of the determinant variables. However, the life expectancy in Philippines (as well as in five other countries in the EBA model sample) is notably lower than the levels in other countries in the sample, making this variable less valid for the Philippines. A revised EBA model with special adjustment for mortality risk (redefining prime savers as population from 40 to 59) was estimated and the CA norm in 2018 was about −2.2 percent of GDP.

[2] The current expansionary fiscal policy stance since 2016 was mainly the result of the large public infrastructure program that will last at least till 2022. Whether this expansionary fiscal policy stance should be viewed as "temporary" or "persistent" is an open question. If fiscal policy tightens in 2022 as the infrastructure program ends, there is some scope for classifying some of the increase in CA deficit in recent years as "cyclical" (due to "temporarily" higher fiscal deficits). However, given large infrastructure needs, we do not think this should be the baseline assessment because it may be a stretch to assume the fiscal policy will definitely tighten after 2022 and classify a 6-year-long expansionary fiscal policy (and the associated higher CA deficits) as "temporary."

[3] Consumer loans increased from 5.1 percent of GDP in 2009 to 9.5 percent in 2018. Nonreal estate consumer loans increased from 3.1 percent of GDP in 2009 to 5.7 percent of GDP in 2018.

**9.** *Assessment*. The real effective exchange rate (REER) was broadly in line with the level implied by fundamentals and desirable policy settings in 2018. Using standard trade elasticities, a CA gap at −0.4 percent GDP was equivalent to a REER gap at 2 percent (stronger than fundamentals).[4]

**10.** The REER appreciated by 1.8 percent in the first nine months of 2019. The development does not warrant a change of assessment.

**Capital and Financial Accounts**

**11.** *Background*. Net FDI inflows have increased substantially since 2016, from around zero before 2015 to around 2 percent of GDP during 2016−2018. On portfolio and other investments, although there was strong (regional) capital outflow pressure in the context of U.S. interest rate hike in the first three quarters of 2018 (especially on equities and loans), the direction of non-FDI capital flows reversed in the last quarter of 2018. Overall, portfolio and other investments registered a net capital inflow by 0.8 percent of GDP in 2018 (versus a net outflow of 1.3 percent of GDP in 2017). During the first half of 2019, net FDI inflows decreased to US$1.8 billion (vs. US$3.7 billion in 2018:H1). Increased capital inflows in the portfolio and other investment account helped finance the persistent current account deficit and the accumulation of foreign reserves in 2019. A bulk of the increase in portfolio and other investment inflows came from government borrowings.

**12.** *Assessment*. As a small open economy, the Philippines is inevitably exposed to cross-border capital flow shocks. Given the large amount of foreign reserves and flexible exchange rate regime, the vulnerabilities are limited. However, the increased role of non-FDI financing entails an increased exposure to global financial market fluctuations.

**FX Intervention and Reserves Level**

**13.** *Background*. The exchange rate is classified as floating. The value of the Philippine peso is determined in the interbank foreign exchange market. The BSP intervenes in the spot and forward markets though intervention data is not available. Gross reserves were about US$79.2 billion (about 24 percent of GDP) at end-2018, slightly lower than the level at end-2017 (US$81.5 billion). However, during the first three quarters of 2018, reserves losses due to intervention were notable. Gross reserves reached the trough in October (US$74.7 billion) before capital outflows reversed in the last quarter of 2018. Gross reserves further increased to US$85.8 billion by October 2019, largely reflecting the continuation of capital inflows in 2019.

**14.** *Assessment*. Reserves as of end-2018 were about 7 months of imports, or about 193 percent of the IMF's reserve adequacy metric. Both approaches indicate that reserves level is ample. The developments in 2019 do not change the assessment. From an "ex-post" angle, the intervention during the first three quarters of 2018 appears to be justifiable, as it avoids the sharper depreciation of peso (6.2 percent y/y at the peak in 2018:Q3) during the high inflation episode (and eventually the capital outflow pressures reversed).

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[4] The assessment was made based on the CA gap from EBA-CA model and the semi-elasticity between CA and REER. The REER norms from the EBA REER-Index and REER-Level model were about 0.7 ppt and 6.8 ppt weaker than the actual REER in 2018.

# Appendix III. Public and External Debt Sustainability Analysis

*The Philippines' general government gross debt remained moderate and sustainable at 38.9 percent of GDP as of end-2018. In the baseline scenario, the debt-to-GDP ratio is projected to decline to 37.5 percent in 2024 and is most vulnerable to a growth shock, followed by real interest rate and primary balance shocks. External debt stood at a moderate 23.9 percent of GDP as of end-2018 and is projected to decline to 19.1 percent in 2024, although being vulnerable to large depreciation or current account balance deterioration.*

## A. Background and Realism of Key Assumptions

1. **Baseline projections are predicated on strong and sustainable macroeconomic performance over the medium term**. Real GDP growth is projected to gradually rise to 6.5 percent per annum in 2024, with inflation returning to 3 percent as the economy's productive capacity expands. The national government deficit would reach 3.2 percent of GDP in 2020 and remain at this level until 2024. The current account deficit is projected to narrow to 2 percent of GDP in 2019 due to lower infrastructure-related imports and widen to 2.3 percent in 2020, before stabilizing at 2 percent in 2024.

## B. Debt Sustainability

2. **Public debt in the Philippines is on a gradual downward path under current policies**. Prudent fiscal management and strong growth are expected to reduce the general government gross debt-to-GDP ratio from 38.9 percent of GDP in 2018 to 37.5 percent in 2024. The decline would be led by a significant primary budget surplus, which staff assess as achievable based on international experience. The gross financing needs remain comfortable at around 4–6 percent of GDP throughout the projection period. The debt composition is projected to be broadly stable with relatively low shares of short-term debt and foreign currency-denominated debt, in line with the authorities' debt management policy.

3. **Alternative scenarios suggest that staff's baseline is conservative by historical standards**. Under the historical and the constant primary balance scenarios, the debt paths would fall faster than in staff's baseline, reflecting the Philippines' large-scale debt consolidation since 1999 and strong GDP growth. The gross financing needs under the constant primary balance scenario would start to rise after 2021 and reach 5.5 percent of GDP in the medium term. In response to macroeconomics shocks, a growth shock would temporarily increase the debt ratio to a peak of 41.8 percent of GDP in 2021.

4. **External debt is also deemed sustainable**. The baseline external debt-to-GDP ratio expected to fall to 19.1 percent of GDP in 2024, from 23.9 percent in 2018. The historical scenario suggests that staff's baseline is conservative, and debt dynamics appear resilient to various shocks including to interest rates, growth, and the current account. A one-time depreciation of 30 percent in 2019 would temporarily raise the debt ratio to a peak of 33.4 percent of GDP in 2020, before the ratio gradually declines to 28.5 percent in 2024.

## Figure 1. Philippines—Public Debt Sustainability Analysis (DSA)—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

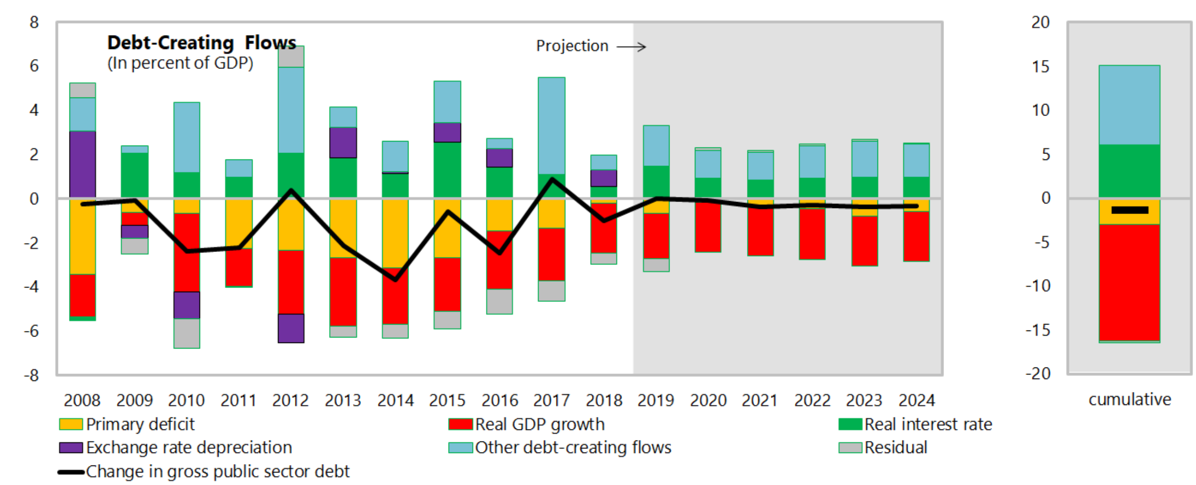
### Debt, Economic and Market Indicators [1]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2008-2016 [2] | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| General government gross debt | 46.4 | 39.9 | 38.9 | 38.9 | 38.9 | 38.5 | 38.2 | 37.8 | 37.5 |
| General government gross financing needs | 9.0 | 5.4 | 5.4 | 5.9 | 5.2 | 4.8 | 4.7 | 4.2 | 4.0 |
| Real GDP growth (in percent) | 5.5 | 6.7 | 6.2 | 5.7 | 6.3 | 6.4 | 6.5 | 6.5 | 6.5 |
| Inflation (GDP deflator, in percent) | 3.0 | 2.3 | 3.8 | 1.1 | 2.6 | 3.1 | 3.0 | 3.0 | 3.0 |
| Nominal GDP growth (in percent) | 8.6 | 9.2 | 10.2 | 6.8 | 9.1 | 9.7 | 9.7 | 9.7 | 9.7 |
| Effective interest rate (in percent) [4] | 5.9 | 4.8 | 4.8 | 5.1 | 5.5 | 5.7 | 5.9 | 6.0 | 6.0 |
| General government net debt [5] | 40.1 | 36.6 | 36.0 | 36.0 | 36.0 | 35.7 | 35.4 | 35.1 | 34.8 |

| As of August 27, 2019 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 90 |
| 5Y CDS (bp) | | 50 |
| Ratings | Foreign | Local |
| Moody's | Baa2 | Baa2 |
| S&Ps | BBB | BBB |
| Fitch | BBB | BBB |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2008-2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | cumulative | debt-stabilizing primary balance [10] |
| Change in general government gross debt | -1.5 | 0.9 | -1.0 | 0.0 | -0.1 | -0.4 | -0.3 | -0.4 | -0.3 | -1.4 | |
| Identified debt-creating flows | -1.1 | 1.8 | -0.5 | 0.6 | -0.2 | -0.5 | -0.4 | -0.4 | -0.4 | -1.2 | |
| Primary deficit | -2.1 | -1.3 | -0.2 | -0.7 | -0.2 | -0.3 | -0.5 | -0.8 | -0.6 | -3.0 | 0.2 |
| Primary (noninterest) revenue and grants | 18.4 | 19.6 | 20.2 | 20.4 | 20.6 | 20.8 | 20.9 | 21.0 | 21.1 | 124.9 | |
| Primary (noninterest) expenditure | 16.2 | 18.3 | 20.0 | 19.8 | 20.5 | 20.5 | 20.4 | 20.3 | 20.5 | 122.0 | |
| Automatic debt dynamics [6] | -0.6 | -1.3 | -1.0 | -0.6 | -1.3 | -1.4 | -1.3 | -1.3 | -1.3 | -7.3 | |
| Interest rate/growth differential [7] | -0.9 | -1.3 | -1.7 | -0.6 | -1.3 | -1.4 | -1.3 | -1.3 | -1.3 | -7.3 | |
| Of which: real interest rate | 1.4 | 1.1 | 0.6 | 1.5 | 0.9 | 0.8 | 0.9 | 1.0 | 1.0 | 6.1 | |
| Of which: real GDP growth | -2.4 | -2.4 | -2.3 | -2.1 | -2.2 | -2.3 | -2.3 | -2.3 | -2.2 | -13.4 | |
| Exchange rate depreciation [8] | 0.4 | 0.0 | 0.7 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 1.6 | 4.4 | 0.7 | 1.9 | 1.3 | 1.3 | 1.4 | 1.6 | 1.5 | 9.0 | |
| Privatization proceeds (negative) | 0.2 | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| GG Accumulation of liquid assets | 1.4 | 4.4 | 0.7 | 1.8 | 1.3 | 1.3 | 1.4 | 1.6 | 1.5 | 8.9 | |
| Residual, including asset changes [9] | -0.4 | -0.9 | -0.5 | -0.6 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | -0.2 | |




Source: IMF staff.

1/ Public sector is defined as general government.

2/ Based on available data.

3/ EMBIG.

4/ Defined as interest payments divided by debt stock (excluding guarantees) at the end of previous year.

5/ Defined as general government gross debt minus the bond sinking fund and the national government bonds held by the social security institutions and local governments.

6/ Derived as $[(r - \pi(1+g) - g + ae(1+r)]/(1+g+\pi+g\pi))$ times previous period debt ratio, with $r$ = interest rate; $\pi$ = growth rate of GDP deflator; $g$ = real 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).

7/ The real interest rate contribution is derived from the numerator in footnote 5 as $r - \pi (1+g)$ and the real growth contribution as $-g$.

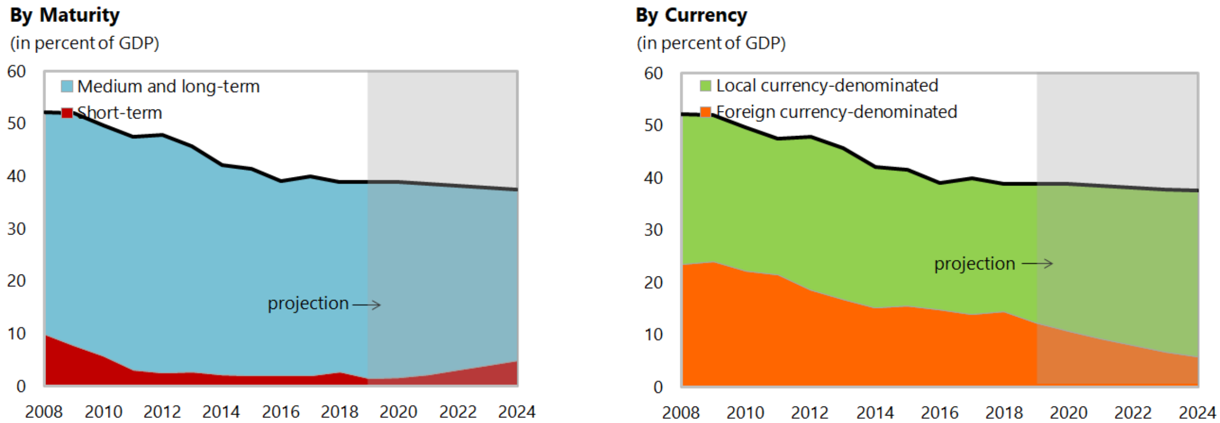
8/ The exchange rate contribution is derived from the numerator in footnote 5 as $ae(1+r)$.

9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

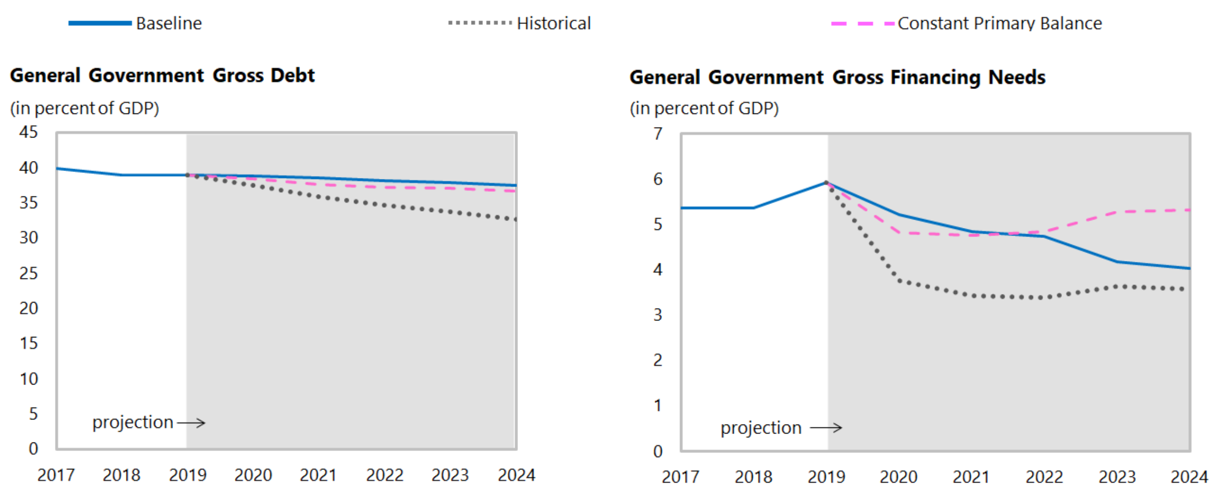
10/ Assumes that key variables (real GDP growth, real interest rate, and other identified debt-creating flows) remain at the level of the last projection year.

## Figure 2. Philippines—Public DSA—Composition of General Government Gross Debt and Alternative Scenarios

### Composition of General Government Gross Debt




### Alternative Scenarios




### Underlying Assumptions
(in percent)

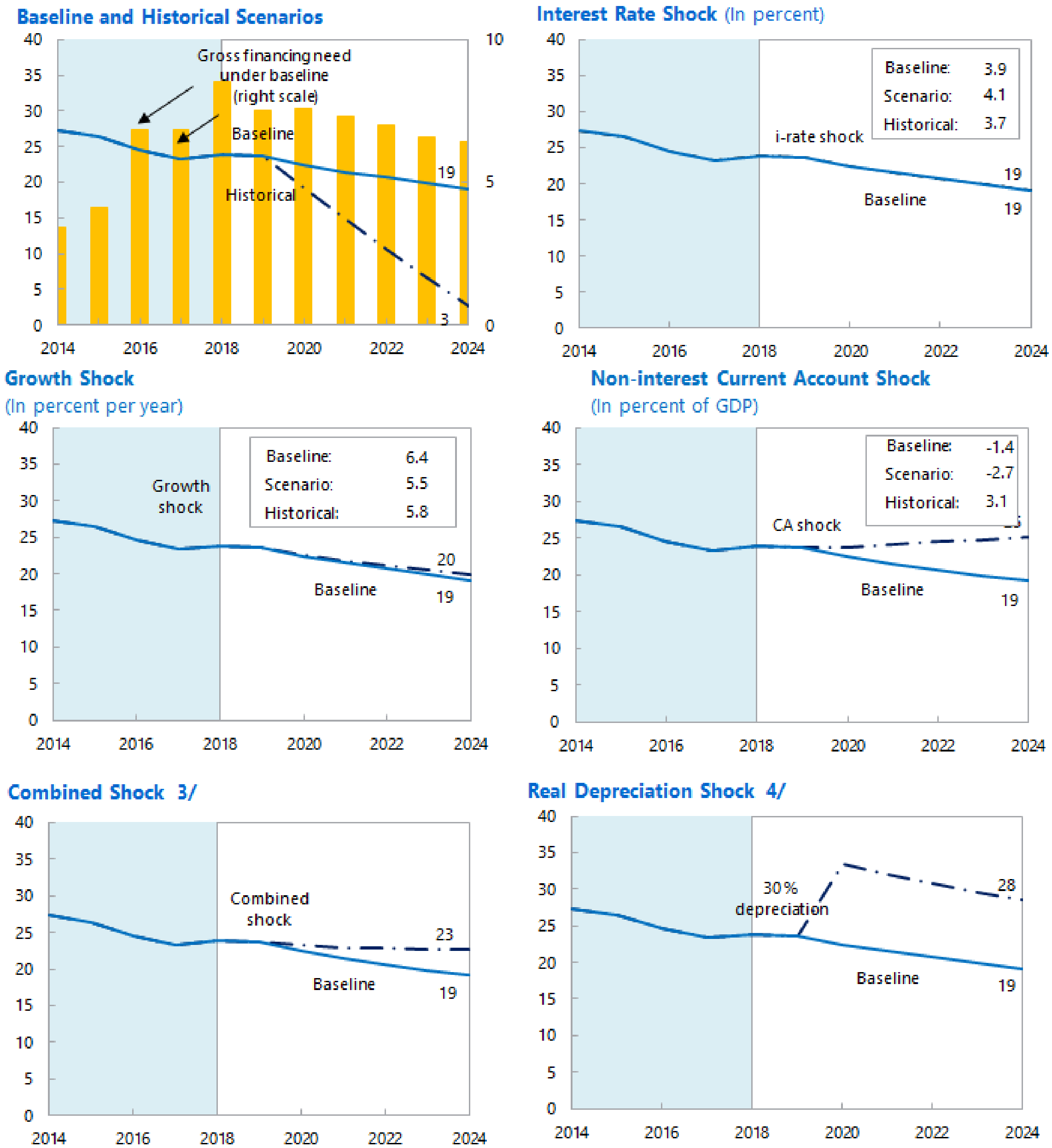
| Baseline Scenario | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Real GDP growth | 5.7 | 6.3 | 6.4 | 6.5 | 6.5 | 6.5 |
| Inflation | 1.1 | 2.6 | 3.1 | 3.0 | 3.0 | 3.0 |
| Primary Balance | 0.7 | 0.2 | 0.3 | 0.5 | 0.8 | 0.6 |
| Effective interest rate | 5.1 | 5.5 | 5.7 | 5.9 | 6.0 | 6.0 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 5.7 | 6.3 | 6.4 | 6.5 | 6.5 | 6.5 |
| Inflation | 1.1 | 2.6 | 3.1 | 3.0 | 3.0 | 3.0 |
| Primary Balance | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Effective interest rate | 5.1 | 5.5 | 5.7 | 5.9 | 6.0 | 5.9 |

| Historical Scenario | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| Real GDP growth | 5.7 | 5.8 | 5.8 | 5.8 | 5.8 | 5.8 |
| Inflation | 1.1 | 2.6 | 3.1 | 3.0 | 3.0 | 3.0 |
| Primary Balance | 0.7 | 1.7 | 1.7 | 1.7 | 1.7 | 1.7 |
| Effective interest rate | 5.1 | 5.5 | 5.7 | 5.9 | 6.0 | 6.0 |

Source: IMF staff.

**Figure 3. Philippines—External Debt Sustainability: Bound Test 1/ 2/**

(External debt, in percent of GDP)




Sources: International Monetary Fund, Country desk data, and staff estimates.

1/ Shaded areas represent actual data. Individual shocks are permanent one-half standard deviation shocks. Figures in the boxes represent average projections for the respective variables in the baseline and scenario being presented. Ten-year historical average for the variable is also shown.

2/ For historical scenarios, the historical averages are calculated over the ten-year period, and the information is used to project debt dynamics five years ahead.

3/ Permanent 1/4 standard deviation shocks applied to real interest rate, growth rate, and current account balance.

4/ One-time real depreciation of 30 percent occurs in 2010.

## Table 1. Philippines—External Debt Sustainability Framework, 2014–2024

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 | | | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Debt-stabilizing non-interest current account 6/ |
| 1 Baseline: External debt | 27.3 | 26.5 | 24.5 | 23.3 | 23.9 | | | 23.6 | 22.4 | 21.5 | 20.6 | 19.8 | 19.1 | -1.9 |
| 2 Change in external debt | -1.6 | -0.8 | -1.9 | -1.2 | 0.6 | | | -0.2 | -1.2 | -1.0 | -0.8 | -0.8 | -0.7 | |
| 3 Identified external debt-creating flows (4+8+9) | -5.1 | -3.0 | -2.6 | -2.4 | 0.0 | | | -1.6 | -0.5 | -0.5 | -0.4 | -0.4 | -0.3 | |
| 4 Current account deficit, excluding interest payments | -4.8 | -3.4 | -0.5 | -0.1 | 1.8 | | | 0.7 | 1.4 | 1.4 | 1.4 | 1.3 | 1.3 | |
| 5 Deficit in balance of goods and services | 4.5 | 6.1 | 9.3 | 10.1 | 11.9 | | | 10.5 | 10.8 | 10.6 | 10.3 | 9.8 | 9.5 | |
| 6 Exports | 26.5 | 24.7 | 24.3 | 27.6 | 27.3 | | | 25.9 | 25.6 | 25.6 | 25.6 | 25.6 | 25.6 | |
| 7 Imports | 30.9 | 30.8 | 33.6 | 37.7 | 39.2 | | | 36.4 | 36.4 | 36.2 | 35.9 | 35.4 | 35.1 | |
| 8 Net non-debt creating capital inflows (negative) | -0.1 | 0.2 | -2.0 | -2.4 | -1.5 | | | -2.0 | -1.4 | -1.4 | -1.3 | -1.2 | -1.1 | |
| 9 Automatic debt dynamics 1/ | -0.3 | 0.1 | -0.2 | 0.1 | -0.3 | | | -0.4 | -0.5 | -0.5 | -0.5 | -0.5 | -0.5 | |
| 10 Contribution from nominal interest rate | 1.0 | 0.9 | 0.8 | 0.8 | 0.9 | | | 0.9 | 0.9 | 0.8 | 0.8 | 0.7 | 0.7 | |
| 11 Contribution from real GDP growth | -1.7 | -1.6 | -1.7 | -1.6 | -1.4 | | | -1.2 | -1.4 | -1.3 | -1.3 | -1.2 | -1.2 | |
| 12 Contribution from price and exchange rate changes 2/ | 0.4 | 0.8 | 0.7 | 0.9 | 0.2 | | | ... | ... | ... | ... | ... | ... | |
| 13 Residual, incl. change in gross foreign assets (2-3) 3/ | 3.6 | 2.2 | 0.7 | 1.2 | 0.6 | | | 1.4 | -0.7 | -0.5 | -0.4 | -0.4 | -0.4 | |
| External debt-to-exports ratio (in percent) | 103.1 | 107.2 | 101.1 | 84.4 | 87.3 | | | 91.3 | 87.6 | 83.8 | 80.6 | 77.5 | 74.7 | |
| Gross external financing need (in billions of US dollars) 4/ | 9.7 | 12.0 | 20.9 | 21.4 | 28.2 | | | 27.5 | 32.5 | 33.9 | 35.4 | 36.2 | 38.2 | |
| in percent of GDP | 3.4 | 4.1 | 6.9 | 6.8 | 8.5 | | | 7.5 | 8.1 | 7.8 | 7.5 | 7.1 | 6.9 | |
| Scenario with key variables at their historical averages 5/ | | | | | | | | 23.6 | 19.2 | 14.9 | 10.7 | 6.7 | 2.7 | -0.7 |
| Key Macroeconomic Assumptions Underlying Baseline | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | | | | | | | |
| Real GDP growth (in percent) | 6.1 | 6.1 | 6.9 | 6.7 | 6.2 | 5.8 | 2.0 | 5.7 | 6.3 | 6.4 | 6.5 | 6.5 | 6.5 | |
| GDP deflator in US dollars (change in percent) | -1.4 | -3.0 | -2.6 | -3.6 | -0.7 | 0.9 | 5.1 | 4.4 | 3.0 | 2.1 | 2.0 | 2.2 | 1.8 | |
| Nominal external interest rate (in percent) | 3.5 | 3.3 | 3.3 | 3.4 | 4.0 | 3.7 | 0.3 | 4.0 | 4.0 | 3.9 | 3.9 | 3.9 | 3.9 | |
| Growth of exports (US dollar terms, in percent) | 11.0 | -4.1 | 2.3 | 17.2 | 4.3 | 7.1 | 10.8 | 4.6 | 8.2 | 8.6 | 8.6 | 8.9 | 8.4 | |
| Growth of imports (US dollar terms, in percent) | 12.2 | 2.3 | 13.7 | 15.3 | 9.8 | 7.9 | 12.0 | 2.5 | 9.5 | 7.8 | 7.7 | 7.6 | 7.6 | |
| Current account balance, excluding interest payments | 4.8 | 3.4 | 0.5 | 0.1 | -1.8 | 3.1 | 2.6 | -0.7 | -1.4 | -1.4 | -1.4 | -1.3 | -1.3 | |
| Net non-debt creating capital inflows | 0.1 | -0.2 | 2.0 | 2.4 | 1.5 | 0.6 | 1.0 | 2.0 | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 | |

1/ Derived as [r - g - r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock, with r = nominal effective interest rate on external debt; r = change in domestic GDP deflator in US dollar terms, g = real GDP growth rate, e = nominal appreciation (increase in dollar value of domestic currency), and a = share of domestic-currency denominated debt in total external debt.

2/ The contribution from price and exchange rate changes is defined as [-r(1+g) + ea(1+r)]/(1+g+r+gr) times previous period debt stock. r increases with an appreciating domestic currency (e > 0) and rising inflation (based on GDP deflator).

3/ For projection, line includes the impact of price and exchange rate changes.

4/ Defined as current account deficit, plus amortization on medium- and long-term debt, plus short-term debt at end of previous period.

5/ The key variables include real GDP growth; nominal interest rate; dollar deflator growth; and both non-interest current account and non-debt inflows in percent of GDP.

6/ Long-run, constant balance that stabilizes the debt ratio assuming that key variables (real GDP growth, nominal interest rate, dollar deflator growth, and non-debt inflows in percent of GDP) remain at their levels of the last projection year.

# Appendix IV. Integration of IMF Capacity Development Assistance and Surveillance

1. **The Fund provided considerable capacity development (CD) assistance to the Philippines to support the authorities' reform agenda**. The authorities have shown strong ownership and an ability to absorb Fund CD. They have made great strides in modernizing their legal, regulatory, and operational frameworks, demonstrated by the ongoing tax reform, a strengthened supervision framework, and the introduction of an interest rate corridor (IRC) system. The Fund has engaged with the authorities by providing considerable assistance, making the Philippines one of the largest recipients of Fund CD resources among emerging markets. Recent CD efforts also informed Fund policy advice on fiscal, monetary, and financial sector issues.

2. **Fund CD assistance should continue to focus on the authorities' current reform agenda and extend to emerging priorities over time**. In particular, the authorities' ambitious tax reform program warrants continued support, both in policy design and implementation. As government spending continues to increase under the infrastructure-push initiative, improvement in public financial management will be critical to maximize positive outcomes for growth, poverty and inequality. In parallel, Fund CD should continue to support the authorities' efforts to improve monetary operations and develop the capital and FX markets, which would help create deeper and more diverse funding sources for the private sector, as well as for government spending. It would also help the authorities advance their financial inclusion agenda to tackle poverty and inequality. Over time, priority demand is likely to expand to other areas, including regulatory and supervisory frameworks, central bank communication, data and reporting standards, fintech innovations, cryptocurrencies, and big data.

| Integrating Fund Surveillance and Capacity Development | | |
|---|---|---|
| **Area** | **Surveillance Recommendations** | **Capacity Development Recent Actions/Plans** |
| Tax policy and administration | Intensify revenue effort to support investment in infrastructure and human capital | TA on various tax reforms and administration (e.g., VAT refund). CD planned for TA and training on international taxation |
| Public expenditure management | Enhance public expenditure management to maximize returns from infrastructure investment | A Public Investment Management Assessment (PIMA) was conducted and follow-up TA and training provided on financial oversight of government-owned and controlled corporates. Treasury management cash forecasting TA also provided |
| Monetary operations and monetary and financial statistics (MFS) | Continue to enhance monetary operations | Continuous CD since 2016 to support the establishment and fine-tuning of an interest corridor system and to expand monetary policy tools. Complemented by technical notes and supported by MFS CD. High-level ASEAN monetary policy forum conducted. Advanced training on monetary policy analysis and forecasting techniques planned |
| Central bank communication | Enhance monetary policy communication | TA planned for monetary policy communication for 2020. Complemented by high-level ASEAN-5 monetary policy communication forum. A high-level ASEAN-5 forum on central bank communication conducted in December 2019, to be followed by bilateral TA to the BSP in early 2020. |
| Financial supervision | Monitor corporate leverage and close data gaps on non-financial corporates and nonbank financial institutions | TA on conglomerate supervision provided and follow-up TA planned |
| Capacity development in macroeconomic analysis and forecasting | Continue to enhance policymaking capacity | Online Financial Programming and Policy course conducted in virtual classroom setting with a Philippines case study. A model-based monetary policy analysis and forecasting (MPAF) course delivered to Philippine and other authorities in the region. Continued discussion of structured curriculum development with Fund assistance |

INTERNATIONAL MONETARY FUND

# PHILIPPINES

## STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 9, 2020


Prepared By | Asia and Pacific Department


## CONTENTS

# FUND RELATIONS

(As of November 30, 2019)

**Membership Status**: Joined December 27, 1945; Article VIII

**General Resources Account**

| | SDR Millions | Percent of Quota |
|---|---|---|
| Quota | 2,042.90 | 100.00 |
| IMF holdings of currency (holdings rate) | 1,656.13 | 81.07 |
| Reserve tranche position | 387.01 | 18.94 |
| Lending to the Fund | | |
| New Arrangements to Borrow | 22.18 | |

**SDR Department**

| | SDR Millions | Percent of Allocation |
|---|---|---|
| Net cumulative allocation | 837.96 | 100.00 |
| Holdings | 854.72 | 102.00 |

**Outstanding Purchases and Loans**: None

**Latest Financial Arrangements**:

| Type | Approval Date | Expiration Date | Amount Approved (SDR millions) | Amount Drawn (SDR millions) |
|---|---|---|---|---|
| Stand-by | 04/01/98 | 12/31/00 | 1,020.79 | 783.23 |
| EFF | 06/24/94 | 03/31/98 | 791.20 | 791.20 |
| Stand-by | 02/20/91 | 03/31/93 | 334.20 | 334.20 |

**Projected Payments to Fund**: None

**Exchange Arrangement**

The de jure exchange rate arrangement is classified as *free floating*, while the de facto arrangement is classified as *floating*. The value of the Philippine peso is determined in the interbank foreign exchange market; the Bangko Sentral ng Pilipinas (BSP) intervenes in the spot and forward markets to smooth undue short-term volatility in the exchange rate. The Philippines maintains an exchange system that is free of multiple currency practices and restrictions on the making of payments and transfers for current international transactions except for exchange restrictions maintained for security reasons and notified to the Fund pursuant to Executive Board Decision 144-(52/51).

**Article IV Consultation**

Philippines is on the standard 12-month cycle. The Executive Board Meeting for the 2018 Article IV consultation was held on September 17, 2018 (IMF Country Report No. 18/287).

**Financial Sector Assessment Program (FSAP) and Report on Standards and Codes (ROSC) Participation**:

**MCM**: A FSAP was conducted during the fourth quarter of 2001; FSAP missions visited Manila in October and November–December 2001. The final version of the report was discussed with the authorities in June 2002. The associated FSSA was discussed by the Executive Board together with the Article IV staff report in September 2002. The FSAP report was published in March 2004. The FSAP update mission took place in November 2009, and the report was published in April 2010.

**FAD**: Discussions on fiscal transparency were held in Manila in September 2001. The ROSC report was discussed by the Executive Board in September 2002 together with the Article IV staff report, and published in October 2002. The update to the ROSC report was published in June 2004. In addition, a pilot Fiscal Transparency Evaluation mission took place in February 2014 and the report was published in June 2015 (IMF Country Report No. 15/156).

**STA**: A ROSC Data Module mission was conducted in September 2003, and the report was published in August 2004.

**Capacity Development**

The Philippines is an intensive user of IMF capacity development (CD) assistance, particularly in fiscal and monetary and financial areas. The authorities have shown strong ownership and absorbed Fund CD well. They have made great strides in modernizing their legal, regulatory, and operational frameworks, as demonstrated by, among others, the ongoing tax reform, a strengthened supervision framework, and the introduction of an interest rate corridor (IRC) system. The Fund has responded to the authorities' efforts favorably and provided considerable assistance, making the Philippines one of the largest recipients of Fund CD resources among emerging markets.

Recent and ongoing CD assistance focus on the following areas:

- Tax policy and administration. TA recommendations have served as important technical input to the government's Comprehensive Tax Reform Program.

- Public financial management (PFM), focusing on cash management, PFM law, budget reform bill, and fiscal transparency;
- Government finance statistics and monetary and financial statistics;
- Monetary policy operations, focusing on establishing and improving the IRC;
- Debt market development and regulation;
- Capital account liberalization and FX market development;
- National accounts and sectoral balance sheet statistics.

**Resident Representative**

A Resident Representative has been stationed in Manila since January 1984. Mr. Yongzheng Yang has been the Resident Representative for the Philippines since September 2017.

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

- World Bank: http://financesapp.worldbank.org/en/countries/Philippines/.
- Asian Development Bank: https://www.adb.org/countries/philippines/main.

# STATISTICAL ISSUES

(As of December 13, 2019)

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General**: Data provision to the Fund has some shortcomings but is broadly adequate for surveillance. |
| **National accounts**: As part of a World Bank-funded project, *Improving the Quality and Usefulness of the Philippine System of National Accounts,* the National Statistical Coordination Board (NSCB) rebased the national accounts from 1985 to 2000. Continuing efforts are underway to rebase the national accounts from 2000 to 2012 and fully implement the *System of National Accounts, 2008. This is expected to be released in the near future. The authorities have made strides to improve the quality of the data*. Work is underway to improve (i) the accuracy of the GDP volume measures; (ii) the coverage of the public corporations sector; (iii) the accuracy of the quarterly GDP data; (iv) the adoption of benchmark techniques to reconcile quarterly and annual national accounts estimates; and (v) the development of high-frequency indicators of economic activities.<br><br>**Price statistics**: In March 2018, the National Statistics Office introduced a rebased consumer price index (CPI). The updated CPI is compiled using weights based on the 2012 Family Income and Expenditure Survey. Data from the 2013 Commodity and Outlet Survey were used to augment the provincial market baskets. One important methodological change implemented in the updated CPI is the use of the "chained" method. This method allows for timely addition of new items to the basket and the exclusion of any obsolete commodities. The CPI data is classified according to the internationally recommended *Classification of Individual Consumption by Purpose (COICOP)* for the classification of all items. |
| **External sector statistics**: The BSP completed the BOP compilation based on the BPM6 framework in March 2014, and that of the IIP in September 2014. Steps have been taken to improve the quality of balance of payment statistics. In 2005, the Central Bank of Philippines (BSP) created a Department of Economic Statistics, with one of its units to concentrate on compiling, analyzing, and publishing the balance of payments and the international investment position. Since deregulation in the early 1990s, international transactions have increasingly flowed through nontraditional channels that are not adequately covered by the statistical reporting system. The authorities have introduced new data sources, including the Cross-Border Transactions Survey and administrative-based reporting systems to address coverage issues, but challenges remain. The Foreign Currency Deposit Units (FCDUs), which account for about 70−75 percent of foreign exchange settlements, are exempt from reporting requirements because of strict banking secrecy rules. |
| **Monetary and financial statistics**: The authorities report monthly monetary statistics for the central bank and other depository corporations with a lag of less than two months, using the standardized report forms for publication in the *International Financial Statistics (IFS)*. In October 2019, the BSP started the publication of the Other Financial Corporations (OFCs) Survey, after a joint effort between the Insurance Commission, SEC, GOCs, and BSP, supported by an IMF's Statistics Department technical assistance program. These data, together with a full financial corporations survey, are now being disseminated through *IFS*.<br><br>**Financial Soundness Indicators**: The authorities report all 12 core financial soundness indicators (FSIs), 9 of the 13 encouraged FSIs for deposit takers, and 2 FSIs for real estate markets—on a quarterly basis—for posting on the IMF's FSI website with one quarter lag.<br><br>**Financial Access Survey (FAS)**: Philippines reports data on several series and indicators of the Financial Access Survey (FAS) including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs). |
| **Government finance statistics**: Provision of fiscal data is broadly adequate for surveillance. Philippines report data for the budgetary central government in the GFSM 2014 format. Major areas for improvement include expanding the sector coverage beyond the budgetary central government and reporting of financial balance sheet. |

| II. Data Standards and Quality | |
|---|---|
| Philippines subscribed to the Special Data Dissemination Standards (SDDS) in August 1996. | A data ROSC was published in August 2004. |

## Philippines: Table of Common Indicators Required for Surveillance

(As of December 31, 2019)

| | Date of Latest Observation | Date Received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of Publication[7] | Memo Items: Data Quality—Methodological Soundness[8] | Memo Items: Data Quality—Accuracy and Reliability[9] |
|---|---|---|---|---|---|---|---|
| Exchange rates | 12/31/2019 | 12/31/2019 | D | D | D | O | O |
| International reserve assets and reserve liabilities of the monetary authorities[1] | 11/2019 | 12/2019 | M | M | M | LO | LO |
| Reserve/base money | 10/2019 | 11/2019 | D | W | W | O, LO, LO, LNO | LO, O, O, O, LO |
| Broad money | 10/2019 | 12/2019 | M | M | M | | |
| Central bank balance sheet | 10/2019 | 11/2019 | M | M | M | | |
| Consolidated balance sheet of the banking system[2] | 9/2019 | 11/2019 | M | M | M | | |
| Interest rates[3] | 12/31/2019 | 12/31/2019 | D | D | D | O | O |
| Consumer price index | 11/2019 | 12/2019 | M | M | M | O, O, O, O | O, LO, O, LO, LO |
| Revenue, expenditure, balance and composition of financing[4]—general government[4] | 10/2019 | 11/2019 | Q | Q | Q | LO, LO, O, O | LO, LO, LO, LO, LO |
| Revenue, expenditure, balance and composition of financing[4]—central government | 10/2019 | 11/2019 | M | M | M | | |
| Stocks of central government and central government-guaranteed debt[5] | 9/2019 | 11/2019 | M | M | M | LNO | LNO |
| External current account balance | 9/2019 | 12/2019 | M | M | M | O, LO, LO, LO | LNO, LO, O, LO, LO |
| Exports and imports of goods and services | 9/2019 | 11/2018 | M | M | M | | |
| GDP/GNP | Q3:2019 | 11/2019 | Q | Q | Q | LO, LO, O, LO | LNO, LNO, O, LO, O |
| Gross external debt | Q3:2019 | 12/2019 | Q | Q | Q | O | O |
| International investment position[6] | Q3:2019 | 12/2019 | Q | Q | Q | O | O |

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Foreign, domestic banks, and domestic nonbank financing
[3]. Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7]Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).
[8] Reflects the assessment provided in the data ROSC or the Substantive Update (published on August 25, 2004 and based on the findings of the mission that took place during September 1–16, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, scope, classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).
[9] Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.