INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/369

# PHILIPPINES

## 2022 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT;

December 2022

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 2022 Article IV consultation with the Philippines, the following documents have been released and are included in this package:

- A **Press Release**
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 23, 2022, following discussions that ended on September 26, 2022, 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 November 4, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Supplement Information** updating information on recent developments.

The document 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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**International Monetary Fund**
**Washington, D.C.**

PRESS RELEASE

PR22/409

# IMF Executive Board Concludes 2022 Article IV Consultation with the Philippines

**FOR IMMEDIATE RELEASE**

**Washington, DC** – **November 23, 2022**: The Executive Board of the International Monetary Fund (IMF) concluded the 2022 Article IV consultation[1] with the Philippines and considered and endorsed the staff appraisal without a meeting on a lapse-of-time basis.

Following a sharp contraction in 2020, the Philippine economy rebounded in late 2021, growing by 5.7 percent. Growth accelerated further to 7.8 percent in the first half of 2022, spurred by strong domestic demand and private investment, as the Omicron wave proved to be less severe than anticipated and improved vaccination rates supported mobility. Both headline and core inflation increased in 2022—to 6.9 and 5.0 percent (year-on-year) respectively in September—surpassing the upper band of the government's inflation target range of 2-4 percent. The current account swung from a surplus to a deficit in 2021, and the deficit has widened further in the first half of 2022, amid higher commodity prices, and the recovery in domestic demand. The banking system has shown resilience during the pandemic, emerging from the downturn with sufficient liquidity and capital buffers.

The outlook for 2023 is more challenging due to unsettled conditions in major advanced economies, and real GDP is expected to slow from 6.5 percent in 2022 to 5 percent in 2023. Medium-term economic growth is forecast at about 6.3 percent. Inflation is expected to rise to 5.3 percent in 2022, then to decline modestly in 2023, supported by a moderation in commodity prices, and converge to the mid-point of the band in 2024, as tighter monetary policy keeps inflation expectations anchored. The current account deficit is expected to increase to 5 percent of GDP in 2022 but decline to about 1.7 percent of GDP over the medium term. With a difficult global environment weighing heavily on the economy, the economic outlook is subject to significant downside risks, where policy tradeoffs between supporting output on the one hand and reducing inflation and safeguarding the external position on the other, would become more acute.

**Executive Board Assessment[2]**

In concluding the 2022 Article IV consultation discussions with the Philippines, Executive Directors endorsed the staff's appraisal, as follows:

Sustained reforms and disciplined macroeconomic policies proved decisive in steering the Philippines out of a sharp pandemic-induced recession, but the outlook is overshadowed by a more uncertain global environment. Underpinned by very sound fundamentals, the economy is recovering at a swift pace, credit growth has picked up, and the banking system has shown

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[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.

resilience, coming out of the pandemic with sufficient liquidity and capital buffers. However, a difficult global environment is weighing heavily on the Philippine economy. Amid US dollar strength, high commodity prices, and tightening global financial conditions, inflation has increased sharply, the external position has weakened, and fiscal space has narrowed.

Calibrating the policy mix to preserve macroeconomic stability, enhancing fiscal and financial resilience, and accelerating structural reforms are critical to sustain the recovery. Monetary and fiscal policy are aligned in the right direction to support external and domestic balance. A tightened policy stance will keep inflation expectations anchored and help alleviate pressure on capital outflows and the exchange rate. Exchange rate flexibility remains important as a shock absorber against the backdrop of a persistent terms of trade shock and a wider current account deficit. Policies will have to remain nimble, carefully balancing growth and price stability objectives, while managing limited fiscal buffers, preserving financial stability, and ensuring external sustainability.

The BSP's prompt action to fight inflation is welcome, but further monetary tightening may be needed to keep inflation expectations well anchored. The current policy stance remains accommodative, and BSP should aim at bringing the policy rate close to the neutral real rate to securely bring inflation within the target range. Should inflation pressures continue to rise, the BSP should respond with a tighter policy stance. Similarly, if inflation proves less persistent, or if significant downside risks to growth materialize, monetary policy tightening would need to be recalibrated. Clear communication about inflation and the BSP's policy intentions can help reduce uncertainty and improve policy transmission.

Higher downside risks to growth and rising interest rates warrant close monitoring of financial stability risks. Despite some improvement in profitability and debt servicing capacity, the pandemic has increased risks in NFCs, which may face renewed challenges with rising interest rates.

These risks can be amplified through "mixed" conglomerate structures that include NFCs and financial institutions, and in sectors with a relatively high debt burden. To enhance resilience, the BSP's capacity to conduct financial stability risk assessments and the bank resolution framework should be strengthened. In addition, with the recovery underway, regulatory forbearance measures should be allowed to lapse as scheduled.

Enhanced AML/CFT effectiveness is critical to support a swift and successful exit from the FATF list. Key items under the Philippines AML/CFT Action Plan include risk-based AML/CFT supervision of high-risk sectors, and access to beneficial ownership information by competent authorities. Separately, prioritizing amendments to the bank secrecy law will enhance the BSP's supervisory powers, strengthen AML/CFT effectiveness and reduce vulnerabilities to corruption.

Fiscal consolidation over the medium-term should be underpinned by stronger revenue mobilization and cost-effective government spending. While the near-term fiscal stance is appropriate, an accelerated pace of consolidation in the medium-term would allow the government to signal its intent to put debt on a firmly downward trajectory. There is ample scope to enhance revenue mobilization, which can underpin a faster medium-term fiscal consolidation, while securing resources for the authorities' social and development plans. Augmenting the medium-term fiscal program with explicit fiscal anchors and a medium-term revenue strategy would further support fiscal credibility and debt sustainability.

The coordinated use of fiscal, monetary, and exchange rate policies can help alleviate policy tradeoffs under downside risk scenarios. Monetary policy should be the first line of defense against persistent inflationary pressures. Under a scenario of disruptive market conditions and tightening FX liquidity, the use of FXI can mitigate a sharp and disorderly exchange rate depreciation, alleviate inflation, and reduce some of the pressure on monetary policy. If growth falls below the baseline, fiscal policy can be deployed to support the economy by slowing the pace of fiscal consolidation, though this could come at the cost of higher inflation and interest rates, and a higher debt burden over the medium-term.

Ambitious development goals call for further reforms to raise productivity, boost competitiveness, and enhance social development. Infrastructure and education gaps that have been made worse by the pandemic should be addressed as a priority. Recently passed legislations which aim to attract FDI are welcome, but effective implementation will be key. Ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement would facilitate access to imports and stimulate export diversification. Efforts to enhance food security and strengthen agricultural performance should focus on raising productivity and promoting new investments in the sector. Further progress in digitalization and better harnessing the benefits of a digital economy will also support growth and social objectives and strengthen governance.

Climate change policies will benefit from an integrated strategy that includes a carbon pricing scheme, innovative private sector financing, and support from development partners. The authorities are committed to addressing the impacts of climate change and greening the economy. In this regard, financing the Nationally Determined Contribution (NDC) target will benefit from the introduction of carbon pricing, developing policies to address its distributional implications, and accelerating efforts to incentivize green financing. With limited government resources, additional financial support from development partners and the private sector is essential to attract foreign investors, increase the share of renewables in the energy mix, and develop climate-resilient infrastructure.

## Table 1. Philippines: Selected Economic Indicators, 2019–2024

| | 2019 | 2020 | 2021 | 2022 Proj. | 2023 Proj. | 2024 Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National account | | | | | | |
| Real GDP | 6.1 | -9.5 | 5.7 | 6.5 | 5.0 | 6.0 |
| Consumption | 6.3 | -5.3 | 4.7 | 7.4 | 6.5 | 6.5 |
| Private | 5.9 | -8.0 | 4.2 | 7.5 | 6.2 | 6.3 |
| Public | 9.1 | 10.5 | 7.1 | 6.7 | 7.8 | 7.5 |
| Gross fixed capital formation | 3.9 | -27.3 | 9.9 | 17.2 | 9.9 | 10.3 |
| Final domestic demand | 5.7 | -10.5 | 5.7 | 9.4 | 7.3 | 7.3 |
| Net exports (contribution to growth) | -0.2 | 4.0 | -2.4 | -4.6 | -3.2 | -2.5 |
| Real GDP per capita | 4.6 | -10.7 | 4.3 | 5.1 | 3.7 | 4.7 |
| Output gap (percent, +=above potential) | -0.1 | -8.5 | -3.2 | -0.1 | 0.0 | 0.0 |
| Labor market | | | | | | |
| Unemployment rate (percent of labor force) | 5.1 | 10.4 | 7.8 | 5.7 | 5.4 | 5.1 |
| Underemployment rate (percent of employed persons) | 13.8 | 16.2 | 15.9 | 14.3 | … | … |
| Employment | 1.9 | -6.1 | 11.7 | 4.9 | 2.4 | 1.6 |
| Price | | | | | | |
| Consumer prices (period average) | 2.4 | 2.4 | 3.9 | 5.3 | 4.3 | 3.1 |
| Consumer prices (end of period) | 2.4 | 3.3 | 3.1 | 5.8 | 3.7 | 3.0 |
| Core consumer prices (period average) | 3.4 | 3.4 | 3.0 | … | … | … |
| Residential real estate (Q4/Q4) | 10.4 | 0.8 | 4.9 | … | … | … |
| Money and credit (end of period) | | | | | | |
| 3-month PHIREF rate (in percent) 1/ | 3.1 | 1.3 | 1.5 | … | … | … |
| Claims on private sector (in percent of GDP) | 48.0 | 52.0 | 49.9 | 49.9 | 51.1 | 52.4 |
| Claims on private sector | 7.8 | -0.2 | 3.8 | 11.6 | 11.4 | 12.3 |
| Monetary base | -3.0 | 5.1 | 5.8 | 15.9 | 9.4 | 10.3 |
| Broad money | 9.8 | 8.7 | 8.0 | 11.0 | 9.9 | 9.7 |
| Public finances (in percent of GDP) | | | | | | |
| National government overall balance 2/ | -3.4 | -7.6 | -8.6 | -7.6 | -6.1 | -5.2 |
| Revenue and grants | 16.1 | 15.9 | 15.5 | 15.2 | 15.4 | 15.8 |
| Total expenditure and net lending | 19.5 | 23.5 | 24.1 | 22.8 | 21.6 | 20.9 |
| General government gross debt | 37.0 | 51.6 | 57.0 | 59.2 | 60.9 | 60.8 |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account balance | -0.8 | 3.2 | -1.5 | -5.0 | -4.1 | -3.6 |
| FDI, net | -1.4 | -0.9 | -2.5 | -2.0 | -2.0 | -2.0 |
| Total external debt | 22.2 | 27.2 | 27.0 | 26.6 | 26.4 | 25.8 |
| Gross reserves | | | | | | |
| Gross reserves (US$ billions) | 87.8 | 110.1 | 108.8 | 94.1 | 88.7 | 83.9 |
| Gross reserves (percent of short-term debt, remaining maturity) | 396.5 | 524.6 | 522.8 | 446.0 | 402.1 | 361.8 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 376.8 | 361.8 | 394.1 | 402.2 | 426.2 | 459.9 |
| Nominal GDP per capita (US$) | 3,512 | 3,326 | 3,576 | 3,602 | 3,769 | 4,015 |
| GDP (in billions of pesos) | 19,518 | 17,952 | 19,411 | 21,690 | 23,597 | 25,798 |
| Real effective exchange rate (2010=100) | 105.4 | 111.2 | 111.1 | … | … | … |
| Peso per U.S. dollar (period average) | 51.8 | 49.6 | 49.3 | … | … | … |

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

1/ Benchmark rate for the peso floating leg of a 3-month interest rate swap.

2/ 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 2022 ARTICLE IV CONSULTATION

November 4, 2022

## KEY ISSUES

**Context**: A new administration took office in July with a blueprint to secure an inclusive, sustainable, and green recovery. While the economy remains fundamentally sound, the new administration will face three important challenges: (1) striking the right policy mix to secure the recovery and safeguard price stability; (2) building fiscal buffers as insurance against downside risks; and (3) raising the Philippine's long-term growth.

**Outlook and risks**: The economy is recovering swiftly, after a deep pandemic-induced downturn, but debt is higher, the external position is weaker, and inflation has increased sharply. With a difficult global environment weighing heavily on the economy, the economic outlook is subject to significant downside risks, where policy tradeoffs between supporting output on the one hand and reducing inflation and safeguarding the external position on the other, would become more acute.

**Main policy recommendations**:

*Monetary policy*. Continued monetary policy tightening in the near-term, supported by enhanced communication of BSP's policy intentions, is appropriate to keep inflation expectations well anchored and can also help guard against capital outflows.

*Financial sector*. The financial system has been resilient, but downside risks in the economy warrant close monitoring of financial stability risks. Enhanced AML/CFT effectiveness and completion of the Philippines Action Plan with the Financial Action Task Force (FATF) are critical.

*Fiscal policy*. Fiscal consolidation, underpinned by stronger revenue mobilization and expenditure efficiency, is important to regain fiscal space. This combined with a concrete medium-term fiscal strategy can reinforce sustainability and confidence. If growth falls below the baseline, the pace of consolidation should be slower to secure the recovery.

*Policies under downside risks.* Policies should remain nimble, and a coordinated use of fiscal, monetary, and exchange rate policies can help alleviate policy tradeoffs. Depending on initial conditions and shocks, FXI can be used to dampen excessive market volatility and relieve pressure on monetary policy; fiscal stimulus can prevent a large output gap; and banks can use their capital buffers to support credit growth.

*Structural reforms.* Accelerating reforms to raise productivity, reduce infrastructure and education gaps, enhance governance, and harness benefits from the digital economy can reignite investment and boost potential growth. These reforms should be complemented by strengthening social protection schemes and addressing climate change through a more integrated strategy that includes a carbon pricing scheme.

Approved By
**Sanjaya Panth (APD) and Stephan Danninger (SPR)**

Discussions took place virtually and in Manila during September 12-26, 2022. The mission comprised Cheng Hoon Lim (head), Elif Ceren Arbatli Saxegaard, Nuri Baek, Ragnar Gudmundsson (Resident Representative), Leni Hunter, Sarwat Jahan, Yinqiu Lu (all APD) Artur Swistak (FAD) and Jonathan Pampolina (LEG). Staff in the office of the Resident Representative supported the mission. Rosemary Lim, Firman Mochtar, and Dennis Bautista (OED) and Sanjaya Panth (APD) joined some of the meetings. Simon Black, Ian Perry, and Karly Zhunussova (all FAD) presented their Selected Issues Paper on a climate change mitigation strategy for the Philippines virtually.
Agnes Isnawangsih, and Patricia Tanseco (both APD) contributed to the preparation of this report.

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## APPENDICES

# CONTEXT

1. **The Philippines has done well to emerge from one of the world's longest and strictest pandemic lockdowns**. While it bears deep scars from the pandemic—some 60 thousand Filipinos died and nearly five million initially lost their jobs—the economy has been able to recover swiftly and remains fundamentally sound thanks to sustained reforms and disciplined macroeconomic policies that contained macro-financial vulnerabilities and mitigated the effects of the pandemic.

2. **Yet, as it prepares to put the pandemic safely behind, the Philippines faces a gloomier and more uncertain global environment**. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide—especially in the United States and major European economies—triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and further negative spillovers from Russia's war in Ukraine (Box 1).

3. **President Marcos Jr's administration, which took office on July 1, outlined a blueprint to secure a sustainable, inclusive, and green recovery**. Its immediate attention has centered on reducing the impact of high food prices on poor households and farmers. As the new administration moves forward, three important challenges will need to be addressed:

- **Calibrating the policy mix to put the recovery on firmer footing and safeguard price stability**.
- **Building fiscal buffers as insurance against significant downside risks**.
- **Raising long-term growth and the standard of living for all Filipinos**.

# OUTLOOK AND RISKS

4. **The Philippine economy is on the mend after a deep economic downturn**. After contracting by 9.5 percent in 2020, the economy grew by 5.7 percent in 2021 and growth accelerated to 7.8 percent in 2022H1 as the Omicron wave proved to be less severe than anticipated and improved vaccination rates[1] supported mobility (Figure 1). With COVID-19 cases declining, the Philippines reopened its borders to fully vaccinated international travelers in February 2022 and schools reopened nationwide in September (in-person classes are expected to resume by November). Private consumption and investment rebounded strongly, supported by a steady increase in private sector credit, and real GDP is expected to expand by 6.5 percent in 2022, closing the output gap sooner than expected (Figure 2). The outlook for 2023 is more challenging due to unsettled conditions in major advanced economies, and growth has been revised down to 5.0 percent relative to the April WEO forecast of 6.3 percent.

[1] The Philippines achieved its target of fully vaccinating over 70 million people, or 77.8 percent of its target population as of June 2022. About 18 percent of the population have received a booster shot as of October 13, 2022.

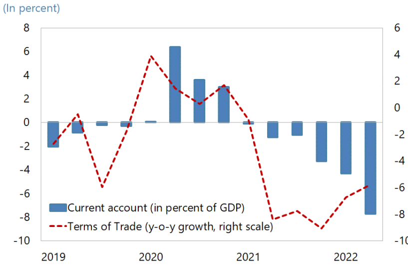
**5. Inflation has increased sharply and is becoming broad-based**. Both headline and core inflation increased in 2022—to 6.9 and 4.5 percent (year-on-year) respectively in September—surpassing the upper band of the government's inflation target range of 2-4 percent (Figure 3). Acceleration in food, energy, and transport prices have accounted for over three-quarters of the rise in headline inflation. Signs of second-round effects have emerged, including approved increases in minimum wage and transport fares hikes, and inflation expectations have been edging up. Headline inflation is projected to average 5.3 percent in 2022, decline modestly in 2023, supported by a moderation in commodity prices, and converge to the mid-point of the band in 2024, as tighter monetary policy keeps inflation expectations anchored.

**6. The current account swung from a surplus to a deficit in 2021, with the deficit expected to increase further to 5.0 percent of GDP in 2022**. The widening in the current account deficit reflects both a rebound in imports, consistent with strong domestic demand, and high commodity prices (Figure 6). Taking into account cyclical factors and the COVID-19 shock, the CA position in 2021 is assessed to be in line with the level implied by macroeconomic fundamentals and desirable policies. The larger current account deficits are mainly being financed by foreign direct investment and a drawdown of reserves. Gross international reserves (GIR) declined by about US$15.8 billion from end-2021 to end-September 2022, also reflecting valuation effects, but remain adequate based on the IMF's ARA metric (Appendix 1). Looking ahead, the current account is projected to continue to be financed by foreign direct investment, some reserve drawdown, and portfolio inflows, that are projected to return in 2023, supported by higher domestic interest rates.

**GDP Growth Revisions for 2022**
(In percent)

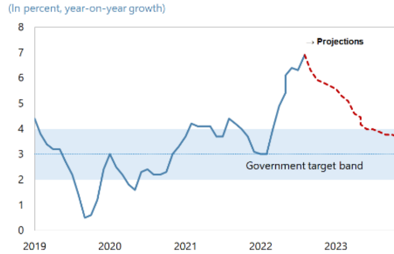

Sources: IMF, World Economic Outlook; and IMF staff calculations.

**Current Account Balance and Terms of Trade**
(In percent)




Sources: Haver Analytics; and IMF staff calculations.

**Headline Inflation**
(In percent, year-on-year growth)

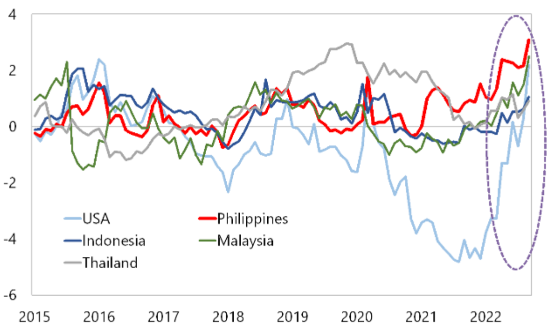



Sources: Haver Analytics; and IMF staff estimates.

**7. Mirroring global developments, domestic financial conditions have tightened** (Figure 4). A weaker peso and wider dollar funding spreads have pushed up the cost of external borrowing, while monetary policy tightening to tackle inflation has led to higher domestic interest rates and lower corporate valuations. Credit growth has picked up, after contracting in 2021, and is expected to increase in line with the economic recovery (Figure 5).

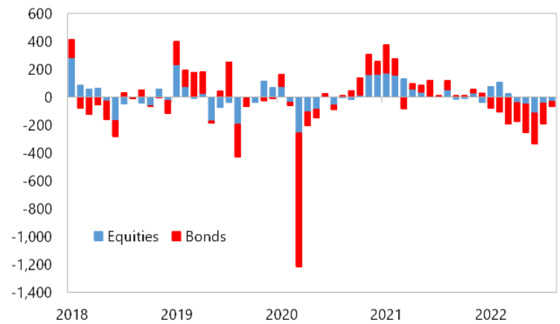
**8. Staff's baseline projections are subject to considerable downside risks** (Appendix II). These could stem from intensifying spillovers from Russia's war in Ukraine, deepening geo-economic fragmentation and geopolitical tensions, commodity price shocks, an abrupt global slowdown or recession, and new COVID outbreaks, all of which can have sizable spillovers on the Philippines through trade and financial channels. More restrictive financial conditions and higher uncertainty could dampen credit growth and investment, jeopardizing the ongoing recovery, while capital outflows could put pressure on the currency and the balance of payments, against the backdrop of a larger current account deficit. Domestic risks could also materialize through persistently high domestic inflation, a deterioration in banks' asset quality, and natural disasters. On the upside, an end to the war in Ukraine and taming of inflation both domestically and globally could contribute to stronger growth than currently envisaged.

**Goldman Sachs' Financial Conditions Index**
(Standardized, mean and standard deviation from Jan 2010 to Dec 2019)



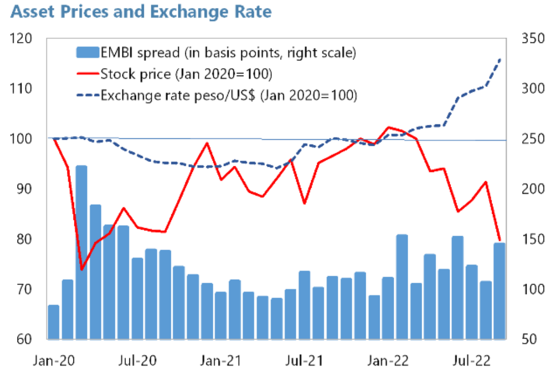

Sources: Bloomberg LP, and IMF staff calculations.

**Portfolio Flows**
(In millions of U.S. dollar)



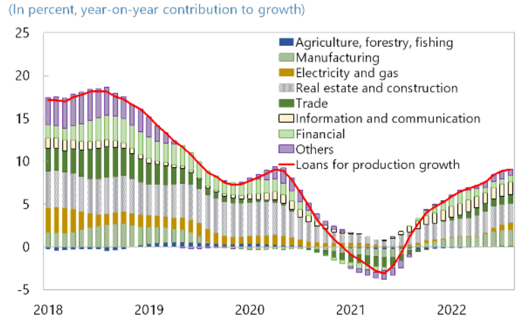

Source: EPFR Global via Haver Analytics.

**Asset Prices and Exchange Rate**




Sources: Haver Analytics; Bloomberg LP: and IMF staff estimates.

**Loans for Production by Sector**
(In percent, year-on-year contribution to growth)




Sources: Haver Analytics; and IMF staff estimates.

## Box 1. Impact of the War in Ukraine and Subsequent Global Economic Developments[1]

*The war in Ukraine has affected the Philippines through trade, commodity prices, and capital flows.*

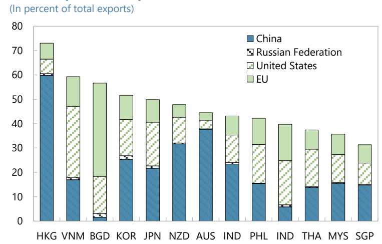
**Downward revisions to major trading partners**. Trade links with Russia and Ukraine are small (0.2 percent of GDP as of 2021); and other links through investment and remittances are negligible. But the Philippines' export share to the U.S., China (including Hong Kong SAR) and EU was 55.4 percent of total exports in 2021. The downgrade in growth projections for the EU, China, and the US, is expected to reduce Philippine growth by an estimated 0.3 percentage points for 2022 and 0.2 percentage points for 2023, respectively.

## Box 1. Impact of the War in Ukraine and Subsequent Global Economic Developments (Concluded)

**Rise in commodity prices**. Staff estimates that higher fuel prices would increase the CA deficit by 1.8 percent of GDP in 2022. Furthermore, with food, energy and transportation comprising 53.5 percent of the Philippines' CPI basket, the rise in commodity prices has fed quickly through to domestic inflation (3.5 percentage points in 2022 H1), leading to a fall in real incomes, as wage growth cannot fully catch up with inflation in the short-term, and lower domestic demand. Poor households are more at risk, for whom food and energy constitute a larger share of living expenses. The World Bank[2] estimates that a 20 percent increase in cereals and energy prices could raise the poverty rate by 2.5 percentage points.

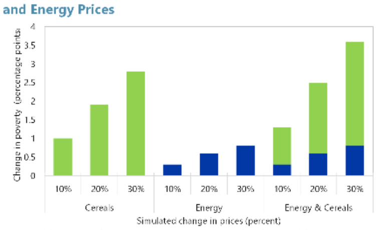
**Capital flows**. Philippines' bilateral cross-border claims with Russia are small. However, a tightening of global financial conditions since the onset of the war has led to US$1.0 billion in portfolio flows from the Philippines as of June 2022. Compared to other Asian emerging economies, capital outflows so far have been lower, including when compared with the taper tantrum and COVID-19 episodes.

**Trade Exposure - Exports of Goods**
(In percent of total exports)



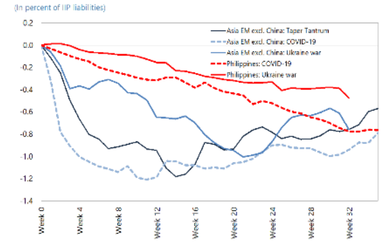

Sources: Direction of Trade Statistics; and IMF Staff Calculations.

**Simulated Changes in Poverty from Increases in Cereals and Energy Prices**




Sources: Philippines' Family Income and Expenditure Survey; and World Bank, Philippines Economic Update, June 2022.

**Cumulative Portfolio Flows**
(In percent of IIP liabilities)




Source: Institute of International Finance. and IMF Staff Calculations.
Note: Asia EM excl. China include IDN, IND, LKA, PHL and THA. Data as of September 30, 2022.

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[1] Prepared by Nuri Baek.

[2] The estimate is based on a simulation exercise using data from the 2018 Family Income and Expenditure Survey (FIES). See Philippines Economic Update, World Bank, June 2022.

### *Authorities' Views*

**9. The authorities are confident that a sustained rebound in domestic demand will maintain the growth momentum**. The latest GDP growth assumption is 6.5-7.5 percent for 2022 and 6.5-8.0 percent for 2023-2028. While there is a larger drag on growth from the slowdown in the global economy and tighter monetary policy, the recovery would continue to be supported by economic reopening, with steady improvement in labor market conditions, and investment in agriculture and infrastructure development. Moreover, they expect the structural reforms pursued during the pandemic to translate to more investments in the economy. That said, the authorities agree with staff's assessment of external risks and that the outlook is subject to considerable uncertainty. They expect the trade deficit to be financed, thanks to remittances, export revenues, tourism receipts and foreign direct investment, even as international reserves are more than adequate.

# HOW SHOULD POLICIES RESPOND?

*Discussions focused on policies to address inflationary risks and sustain the recovery, increase economic and financial resilience to adverse shocks, and reforms to mitigate pandemic scarring and raise productivity growth.*

- *Continued **fiscal and monetary policy tightening** is appropriate in the near-term in navigating the difficult policy tradeoffs between output on the one hand and reducing inflation and safeguarding the external position on the other. Over the medium term, continuing to ensure fiscal sustainability remains a priority.*

- ***Financial sector policies** should guard against systemic risks and strengthen banking system resilience to adverse shocks.*

- ***Enhancing revenue mobilization** will be critical to regain fiscal space and facilitate structural reforms that can propel growth in the medium-term.*

- *Economic policies have been broadly consistent with **past Fund advice**, and some progress has been made in public financial management, AML/CFT framework, central bank communication, structural reforms to ease impediments to investment, reduce vulnerability to corruption, and strengthen governance (Appendix III). The Fund's wide-ranging **capacity development assistance** to the Philippines has been closely integrated with surveillance and the authorities' reform priorities (Appendix VII).*

## A. Monetary and Exchange Rate Policies: Tackling Inflation

**10. The BSP's prompt action to fight inflation is welcome, but further monetary tightening may be needed to keep inflation expectations well anchored**. Since May, the BSP has hiked the policy rate by a cumulative 225 basis points to 4.25 percent, and appropriately signaled that it is "prepared to take all necessary policy actions to bring inflation toward a target-consistent path over the medium term."[2] The current policy stance remains accommodative, with the real policy rate at about zero using staff's projected inflation for 2023. Staff projects additional tightening over 2022 and 2023, to move the real policy interest rate to the lower end of staff's estimated range for the real neutral rate of 1-2 percent. [3] Bringing the policy rate to its neutral level will help to bring inflation within the target range and prevent a de-anchoring of inflation expectations. Tighter monetary policy will also mitigate capital outflows and further exchange rate depreciation. Should inflation pressures continue to rise or prove more persistent, the BSP should respond with a tighter policy

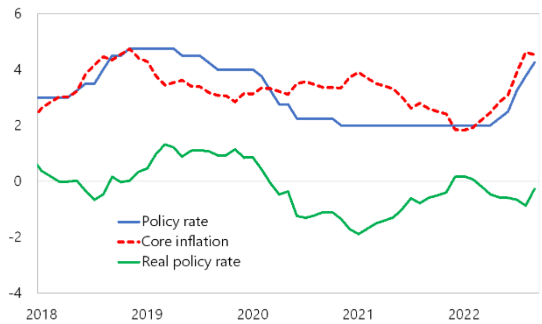
[2] The authorities also used non-monetary tools to help contain inflationary pressures, including the relaxation of pork and fish import restrictions last year. In 2019, the passage of the Rice Tariffication Law (RTL) ended quantitative restrictions and lowered tariffs on rice imports, which has since helped to keep rice prices low.

[3] See IMF Country Report No. 18/287 for more details on staff's estimate of the real neutral rate.

stance. Similarly, if inflation proves less persistent, or if significant downside risks to growth materialize, monetary policy tightening would need to be recalibrated.

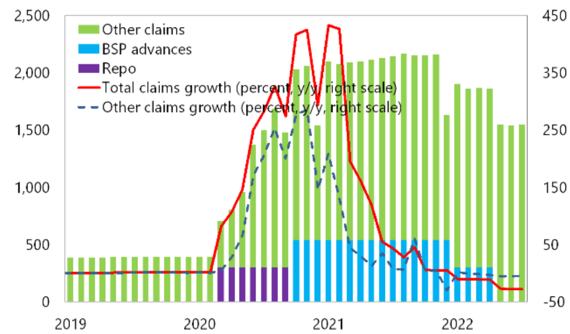
11. **Improvements to BSP's communication and operational framework are helping to reduce uncertainty and improve policy transmission**. The BSP has stepped up communications about monetary policy, introducing a new Monetary Policy Report in February 2022. Recent changes to its operational framework have also led to a better alignment of the interbank rate with the monetary policy interest rate. These measures have helped increase monetary policy transmission. Building on these efforts, staff recommends BSP adopt forward guidance and publish the minutes of Monetary Board meetings to further enhance transparency and accountability.

**Core Inflation and Policy Rate**
(In percent)




Sources: Haver Analytics; and IMF staff estimates.

**BSP Claims on Central Government**
(In billions of peso)



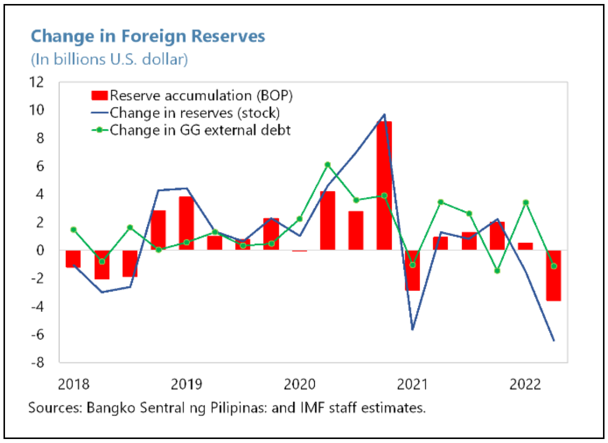

Sources: Haver Analytics; and IMF staff estimates.

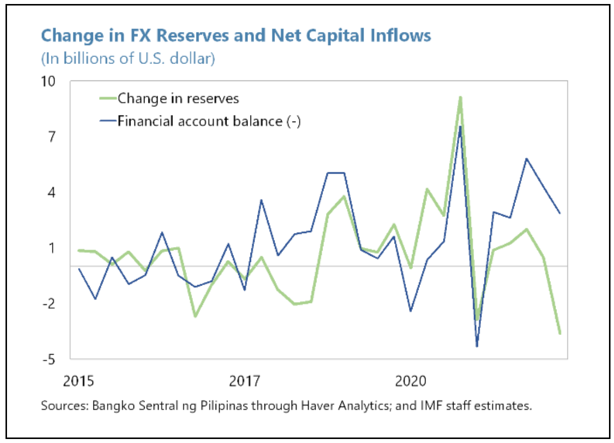
12. **Liquidity and other extraordinary measures that were adopted during the pandemic have largely been unwound**. The BSP's balance sheet size has increased significantly since the pandemic (by 49 percent in the last two years to P7.6 bn in assets in 2021). The early repayment of the BSP's direct budgetary assistance to the government was a welcome step and supportive of its independence. Current money market conditions do not warrant an urgent need to reduce the BSP's balance sheet and an expanded government bond portfolio can facilitate reverse repurchase operations going forward. Staff encourages the BSP—in line with IMF TA recommendations—to communicate its plan to manage the size of its balance sheet, indicating the desired size of government bond holdings.[4] The target size of the BSP's government bond portfolio should not significantly exceed what is needed for liquidity management purposes, and should take account of interest rate risk to its balance sheet and the potential impact on monetary policy stance and transmission.

13. **The exchange rate has played a shock absorbing role against the backdrop of a persistent negative terms of trade shock**. Policies to further deepen domestic FX and capital markets, including through increasing the institutional participation of insurance and pension funds,

[4] This could include the volume of bonds BSP wishes to hold to support open market operations, and any changes to its sterilization toolkit. BSP has announced that it intends to reconfigure its government securities purchasing window adopted during the pandemic into a regular intraday facility.

would contribute to macroeconomic stability.[5] Finally, in line with past advice, staff encourages the publication of FXI data, with appropriate lags and aggregation to guard against market sensitivities.




***Authorities' Views***

**14. The BSP is committed to bringing inflation to a target-consistent path over the medium term.** Policy tightening has enabled the BSP to withdraw stimulus while safeguarding macroeconomic stability. The authorities shared staff's view that further tightening may be needed. They noted that the pace and timing of further monetary policy actions will continue to be guided by a wide range of data and evolving developments. The authorities' estimate of the neutral real interest rate is lower than staff's estimate, at below 1 percent.

**15. The BSP adheres to a flexible exchange rate regime**. The BSP's participation in the FX market is limited to tempering sharp fluctuations in the exchange rate. On occasions of excessive movements, the BSP enters the market mainly to maintain order and stability. As such, the full disclosure of the central bank's FXI could put the BSP's mandate of smoothing the volatility of the exchange rate at risk as it may likely encourage speculative activities by banks. Furthermore, FXI data are market moving and can be used to "front-run" the coverage of FX requirements.

**16. The BSP plans to reconfigure the government securities purchase window into a regular facility under the Interest Rate Corridor system**. The details are still being finalized, though the broad aim is to make its operations consistent with the overall monetary strategy as guided by BSP's liquidity forecasts. The authorities noted that the BSP has already significantly reduced its purchases of government securities and its current holdings is appropriate to efficiently perform liquidity management. Going forward, the desired level of government securities that the BSP needs to hold to support the planned expansion of its overnight reverse repurchase operations

[5] Pension funds and the insurance sector currently account for a small portion of the Philippines' domestic capital market, with their combined volume equivalent to 12 percent of GDP compared to 30 percent in Thailand and almost 80 percent in Malaysia. Source: ADB, May 2022.

will need to be evaluated alongside other monetary operations, but the BSP sees no urgent need to run down its current portfolio given tightening monetary settings.

## B. Financial Sector Policies: Supporting the Recovery and Enhancing Resilience

**17. The banking system has shown resilience during the pandemic, emerging relatively unscathed from the severe downturn in 2020**. Profitability has returned to pre-pandemic levels and non-performing loans have increased only modestly. Banks have increased capital and loan loss provisioning in response to the crisis, with the NPL coverage ratio (allowance for credit loss to gross NPL) at a conservative 100 percent in August 2022. Systemic financial risks are assessed to be low, and the banking system has sufficient liquidity and capital buffers, in line with the 2021 FSAP stress tests that concluded that banks could withstand exceptionally severe shocks in the baseline. With credit growth projected to remain adequate to sustain the recovery, regulatory forbearance measures should be allowed to lapse as scheduled.[6]

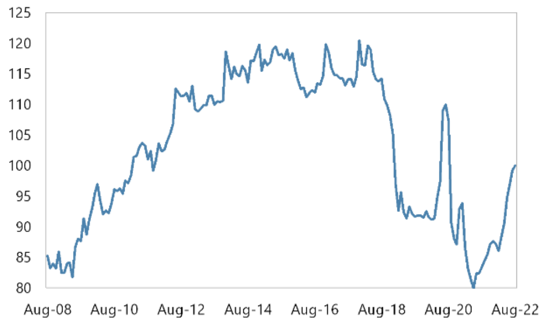
**18. The predominance of downside risks in the economy and rising interest rates warrant close monitoring of financial stability risks**. Data for a large sample of non-financial corporates (NFCs) shows an improvement in profitability and debt servicing capacity. However, the pandemic has increased risks for vulnerable NFCs, with an interest coverage ratio of one or less. These firms hold a relatively low share of debt among listed NFCs in the Philippines relative to other countries in the region, but their share increased during the pandemic from 5 percent in 2019 to 14 percent in 2021.[7] In addition, risks can be amplified through "mixed" conglomerate structures that include NFCs and financial institutions, and in sectors that are more leveraged.[8] Higher interest rates could also squeeze NFCs' access to credit, especially for MSMEs which have seen their share of total bank lending decline to 4 percent. While the gross NPL ratio has declined to 3.5 percent (as of August), a broader measure of "loans at risk" that adds performing restructured loans to NPLs is higher at 5.5 percent of total loans.

[6] Banks have made limited use of forbearance measures, and most measures have lapsed or are scheduled to lapse at the end of 2022. Two forbearance measures that are scheduled to lapse later in 2023 include: Capital Relief on the Treatment of Provisioning Requirements which applies until end-2023; and the reduction in credit risk weights for micro, small and medium enterprises (MSME) loans which applies until end-June 2023 and includes the use of loans granted to MSMEs as an alternative compliance with reserve requirements. The latter is used to incentivize lending to MSMEs.

[7] Based on a sample of 175 Philippine non-financial publicly traded corporates for the period 2020-21. The cross-country comparison includes 223 Philippine publicly traded NFCs in operation, using 2019, 2020 and latest available 2021 data.

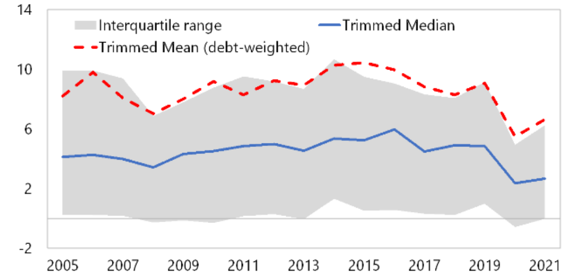
[8] Seven out of the ten largest banks (holding about 60 percent of total bank assets) are related to local family-owned mixed conglomerates. The network analysis by the BSP and the 2021 FSAP suggests that the primary source of contagion among banks is common exposures to large conglomerates.

**Non-performing Loans Coverage Ratio**
(Ratio of allowance for credit losses to gross NPLs, in percent)



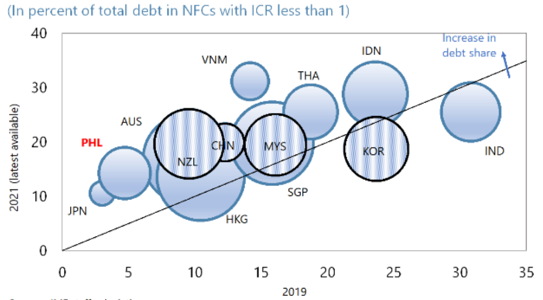

Source: Bangko Sentral ng Pilipinas via Haver Analytics.

**Profitability: Return On Assets**
(In percent, EBIT/assets)



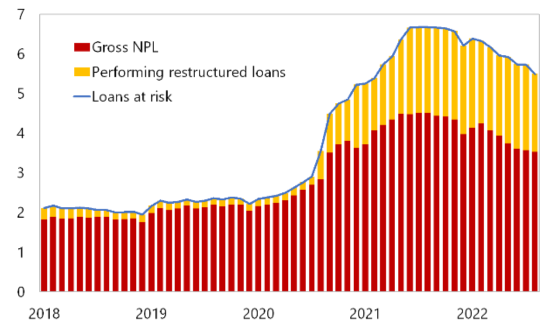

Sources: S&P Capital IQ; and IMF staff estimates.
Firms reporting zero in a given year are excluded from full sample of 175 Philippine publicly traded NFCs, causing sample to vary by year. 141 firms included in 2021. Top/bottom 1 percentile trimmed to calculate mean/median.

**Share of NFC Debt in Vulnerable Firms**
(In percent of total debt in NFCs with ICR less than 1)




Sources: IMF staff calculations.
Note: Includes publicly traded nonfinancial corporations (NFCs) in operation. Width of the bubble represents the share of NFCs with ICR less than 1 in total number of NFCs in the sample. Based on latest available quarterly data. Country abbreviations are International Organization for Standardization country codes. ICR = Interest Coverage Ratio; NFC = nonfinancial corporation.

**Philippines Banking System: Loans At Risk**
(In percent of total loan portfolio, gross)




Source: Banko Sentral ng Pilipinas via Haver Analytics.

**19. Enhancing the BSP's capacity to conduct financial stability risk assessments would support resilience in line with the 2021 FSAP recommendations** (Annex VI). Financial conglomerates should be supervised with closer cross-agency collaboration, appointing the BSP as the lead supervisor with support from relevant agencies, and more frequent comprehensive assessments along with strengthened requirements and monitoring of large exposure and related party transactions. Continued effort is also needed to develop the macroprudential policy toolkit (beyond the countercyclical capital buffer) and its operational procedures, and establish essential financial stability exercises, such as macro-scenario stress testing of banks.

**20. Strengthening the bank resolution framework is also important**. Recent legislative amendments have clarified the role of the Philippine Deposit Insurance Corporation (PDIC) and its relationship with the BSP, centralizing resolution powers within the BSP, and with the PDIC acting to take over and liquidate a closed bank in its role as receiver. The authorities should also start working on resolvability assessments and resolution plans for individual banks, starting with DSIBs. The Prompt Corrective Action framework could be further streamlined and made more specific to prevent critically deficient banks from operating for prolonged periods.

**21. Enhanced AML/CFT effectiveness and completion of the Philippines' Action Plan with the FATF are critical, and separately, amending the bank secrecy law**. Owing to the poor ratings on effectiveness received in the 2019 Mutual Evaluation Report, the FATF included the Philippines in its list of jurisdictions under increased monitoring in June 2021. Continued efforts in risk-based AML/CFT supervision of high-risk sectors (including casinos), access to accurate beneficial ownership information by competent authorities, and other critical areas will be needed to support the country's exit from the FATF list, which can help improve the business environment and encourage foreign direct investment. Separately, amending the bank secrecy law consistent with the 2021 FSAP recommendations will enhance the BSP's supervisory powers over financial conglomerates, strengthen AML/CFT effectiveness (through direct access by law enforcement authorities) and facilitate cooperation with foreign authorities. These reforms, together with enhanced due diligence measures and suspicious transaction reporting on politically exposed persons, family members and close relationships or associates will mitigate vulnerabilities to corruption.[9]

***Authorities' Views***

**22. The authorities noted that strong capital and liquidity positions helped the Philippines' banking system to withstand the COVID-19 crisis**. They noted that banks have improved credit and earning prospects and continue to maintain adequate capital and liquidity buffers. Recent stress tests have also illustrated continued banking sector resilience. The Financial Institutions Strategic Transfer Act (FIST) should also help improve the banking system's resilience to future shocks.[10] BSP will continue to monitor credit and market developments through its surveillance toolkits, regulatory reforms[11], and partnerships with institutions and stakeholders to ensure sustained resilience and soundness of the financial system. The Financial Stability Coordination Council (FSCC) will ensure cross-sectoral coordination of macroprudential policies and crisis management.[12]

**23. The authorities are committed to completing the FATF action items and improving implementation of their AML/CFT framework**. While the Philippines' inclusion on the list is not currently causing significant disruptions to financial flows, the authorities are taking corrective measures to ensure a timely exit from the list. As for enhancing the prudential supervision of financial regulators, the Anti-Money Laundering Council (AMLC) supports the amendment of the bank secrecy law, noting that several bills to amend the law have been submitted to Congress.

[9] House Bill (HB) 8991 to amend Republic Act No. 1405 was prioritized by the Duterte administration and championed by BSP. The bill reached advance stages in the previous Congress; but did not reach approval stage.

[10] The FIST Act was set up to facilitate the resolution of non-performing assets owned by financial institutions to mitigate the impact of the pandemic. FIST implementing rules and regulations were issued in March 2021.

[11] To further promote the health of the financial system, the BSP recently issued regulations governing the recovery plan of all banks under Circular No. 1158 and the prudential framework for monitoring large exposures thresholds under Circular No. 1150.

[12] The FSCC is a voluntary inter-agency model that includes the BSP, SEC, Insurance Commission (IC), PDIC, and the Department of Finance (DoF) and is chaired by the BSP.

## C. Fiscal Policy: Regaining Fiscal Space and Securing Resources for a Sustainable Recovery

**24. Fiscal space in the Philippines has narrowed in the wake of the COVID-19 pandemic**. Pandemic-related fiscal spending raised the fiscal deficit to 8.6 percent of GDP in 2021 (from 3.4 percent of GDP in 2019) and pushed the national government (NG) debt to 60.4 percent of GDP, above the authorities' indicative cap of 60 percent. The recent Mandanas ruling also added pressure on the NG as local government units (LGUs) will receive higher transfers starting in 2022.[13]

**Philippines: National Government Fiscal Measures, 2021–23**

(In percent of GDP)

| | 2021 1/ Outcome | 2022 2/3/ Programmed Budget | 2023 2/3/ |
|---|---|---|---|
| Revenue and grants | 15.5 | 15.2 | 15.4 |
| Expenditures and net lending | 24.1 | 22.8 | 21.6 |
| Current Expenditure | 18.0 | 17.0 | 16.4 |
| *Of which* : Bayanihan I & II and other release | 1.0 | ... | ... |
| *Of which* : Response to the food and fuel crisis | ... | 0.23 | ... |
| *of which:* | | | |
| Pantawid Pasada Program 4/ | | 0.04 | |
| Fuel Discount and Subsidy Program 5/ | | 0.01 | |
| Targeted Cash Transfer Program 6/ | | 0.18 | |
| Capital and Equity Expenditure | 6.0 | 5.7 | 5.0 |
| Overall balance | -8.6 | -7.6 | -6.1 |
| Financing | | | |
| *Of which* : | | | |
| External (net) 7/ | 1.7 | 2.5 | 2.2 |
| Domestic (net) 7/ | 7.3 | 5.2 | 3.9 |
| Memorandum items: | | | |
| Cyclically adjusted primary balance | | | |
| (In percent of potential GDP) | -5.7 | -5.2 | -3.7 |
| Fiscal impulse (- withdrawal) | 2.0 | -0.5 | -1.6 |
| Infrastructure program 8/ | 5.8 | 5.5 | 5.0 |

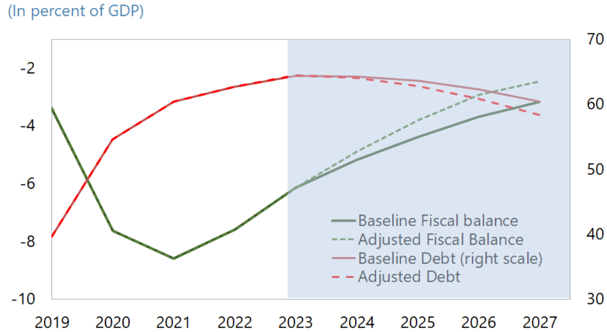
Sources: Philippine authorities; and IMF staff estimates.

1/ Based on data as of August, 2022.
2/ DBCC Ad Referendum dated August 2022; and IMF staff calculations.
3/ Numbers expressed as a ratio of GDP are different from the authorities' numbers as IMF staff projection of GDP is used.
4/ Pantawid Pasada Program provides vouchers for selected public utility vehicles (PUVs).
5/ The fuel discount program provides 30 percent fuel discount for farmers and fishermen up to a maximun total of PHP 3000 per farmer or fisherman while the fuel subsidy program provides relief to the public transport sector in order to cushion the impact of rising fuel prices.
6/ The government provided an additional PHP 500 monthly cash grants to low-income households (12.4 million households) for six months starting April 2022.
7/ Net financing denotes disbursement minus amortization.
8/ NG infrastructure, infrastructure subsidy/equity to GOCCs, and transfers to LGUs intended for infrastructure activities.

**25. To bring down debt and regain fiscal space, the authorities will tighten fiscal policy in 2022 and through the medium-term**. Under current baseline projections, fiscal consolidation totaling 2.5 percent of GDP will be undertaken in 2022-23, along with an average adjustment of about 0.7 percentage point of GDP per year over 2024-27 to achieve the authorities' implicit deficit target of 3 percent of GDP by 2028. While the near-term fiscal stance is appropriate, staff recommends an accelerated pace of consolidation in the medium-term as the recovery takes hold—to reach the 3 percent deficit target in 2026, which would bring the national government debt down to below 59 percent of GDP in 2027. This will allow the government to signal its intent to put debt on a firmly downward trajectory in the medium-term and improve market confidence. The faster fiscal consolidation can be underpinned by high-quality revenue measures, which have limited multiplier effects on growth, and more efficient and well-targeted expenditures.

**National Government Fiscal Projections 1/**

(In percent of GDP)




Sources: DBCC Ad Referendum dated August 2022; and IMF staff calculations.
1/ IMF staff projection of GDP is used. The adjusted scenario is staff's recommended scenario.

[13] The Mandanas ruling shifts fiscal responsibilities to LGUs, but they only assume their new responsibilities in a phased manner, requiring the NG to continue to finance LGU expenditures in the interim. However, the Mandanas ruling is not expected to have a material impact on the general government deficit, as the LGUs are expected to continue to run fiscal surpluses.

**26. Fiscal consolidation complements monetary policy in the tightening of the overall macroeconomic policy stance and helps maintain external and domestic balance**. This can be achieved without sacrificing development or social objectives. Spending on infrastructure development is expected to remain above 5 percent of GDP over the medium-term. An additional 0.23 percent of GDP—funded by an increase in import tax revenue and dividend income from government owned and controlled corporations (GOCCs)—has been allocated to cushion the most vulnerable from the impact of higher commodity prices through targeted and temporary fiscal transfers.

**27. Nevertheless, fiscal policy needs to remain nimble given heightened uncertainty**. If downside risks materialize and growth falls below the baseline, the pace of consolidation should be slower, and the available fiscal space deployed to support growth. Under downside scenarios, debt sustainability analysis suggests that general government debt would increase the most under a growth shock, peaking at 73 percent in 2024 (Appendix IV).

**28. There is ample scope to enhance revenue mobilization, which can underpin a faster medium-term fiscal consolidation, while securing resources for the authorities' social and development plans**. The national government tax-to-GDP ratio, at 14 percent of GDP, is relatively low. Based on staff's assessment, there is significant scope to raise additional tax revenues—of at least 1.4 percent of GDP above the baseline under VAT, corporate and personal income taxes.[14] This will be more than enough to achieve a faster consolidation, with the remainder of about 0.7 percent of GDP used to finance high-priority spending and increase support for the vulnerable. In the near-term, the Philippines can pursue high-quality tax reforms to boost revenue collection and improve tax composition by (i) broadening the PIT base and improving capital income taxation; (ii) streamlining investment tax incentives and strengthening cross-border taxation; (iii) expanding the VAT base; and (iv) enhancing excise taxation (by removing tax exemptions and tapping new bases). The tax reform should focus on improving the overall efficiency and equity of the tax regime while excluding policies that are difficult to implement and administer, or that have a negligible revenue impact. These reforms should be complemented with ongoing efforts to improve revenue administration, including through enhanced use of e-filing and electronic payments, and sustained efforts by the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) to improve tax compliance by stepping up efforts for digital tax filing.

[14] The authorities initiated a Comprehensive Tax Reform Program (CTRP) in 2017 to provide a more sustainable stream of revenues, but progress in revenue mobilization has been limited due to offsetting measures included in various tax policy packages. See selected issues paper "Philippines: Improving Revenue Mobilization" for further details of the tax policy packages: the Tax Reform for Acceleration and Inclusion (TRAIN), implemented in 2018; the Corporate Recovery and Tax Incentives for Enterprises (CREATE) implemented in March 2021; and the most recent third and fourth packages on real estate property valuation and financial intermediaries respectively, await parliament's approval but are not expected to yield significant revenues (the third package will only benefit the LGUs). Gupta and Jalles (2022) estimate a tax capacity of about 23 percent of GDP for the Philippines.

**Philippines: Tax Reform Measures**

| | PHP billions | Percent of GDP |
|---|---|---|
| **Baseline: New Measures in 2023** | **20.1** | **0.08** |
| Mining Regime | 7.9 | 0.03 |
| VAT on digital services | 9.6 | 0.04 |
| New excise tax on plastic bags | 2.4 | 0.01 |
| Tax on pre-mixed alcoholic beverages | 0.4 | 0.002 |
| **Pending CTRP Measures** | | |
| Enhanced property valuation (for property tax) | + | + |
| Streamlined tax on capital income and financial transactions | + | + |
| **1/Potential Additional Tax Measures** | | |
| VAT base broadening (zero-rating and exemptions) | 142.5 | 0.60 |
| PIT base broadening and improved capital income taxation | + | + |
| CIT streamlined investment incentives | + | + |
| CIT cross-border taxation | + | + |
| Motor vehicle user charge | 38.3 | 0.16 |
| Increased excise tax on coal | 35.4 | 0.15 |
| Repeal excise tax exemption for pickups | 8.2 | 0.03 |
| Impose excise tax on motorcycles | + | + |
| Additional (excise) tax on gaming | 13.1 | 0.06 |
| New excises on cigarettes, e-cigarettes, and SSBs (health tax) | 91.0 | 0.39 |
| Increased excise tax on petroleum | + | + |
| Excise tax on telecommunication | + | + |
| Carbon taxation | + | + |
| Cryptocurrencies (tackling evasion) | + | + |
| Enhanced transfer-pricing rules | + | + |
| Tax administration and compliance enhancement | + | + |
| **Total, Potential New Measures** | **328.5** | **1.4** |

1/ The numbers shown in the table are estimates by the previous administration except for the repeal of excise tax exemption for pick-ups which is revised. IMF staff estimate for 2023 GDP is used to calculate the percentage of GDP.

29. **Exploring options to improve expenditure control and efficiency should complement revenue measures**. The authorities have prioritized the digitalization of public financial management (PFM) and public service delivery to enhance efficiency, transparency, and accountability. They have also implemented procurement reforms that include simplifying bidding documents, issuing blacklisting orders, and streamlining the procurement process through better use of information and communications technology (ICT). These measures are welcome and would help reduce corruption vulnerabilities in public financial management, but more can be done to further enhance expenditure control and revenue administration. Finalizing the pending military pension reform bill (raising the retirement age and introducing mandatory pension contributions), as well as exercising greater spending discipline in other areas, including public sector wages are critical. Furthermore, continued reforms in public investment management are important to close Philippines' efficiency gap in public infrastructure investment, and improve the effectiveness of the *Build, Better, More* program.[15] Increasing efficiency in public service delivery at the LGU level is also critical as they take over greater responsibilities under the Mandanas ruling.

[15] The Philippines: Public Investment Management Assessment (2019) report found that the Philippines is weaker than its peers in the areas of project appraisal, multiyear budgeting, portfolio management and oversight, and procurement. The Philippines also shares similar weaknesses with its peers in the areas of project selection and project management. Although the perceived quality of infrastructure is good, the Philippines could generate more and better infrastructure services with the same per capita level of public capital stock if the efficiency gap was closed.

**30. Public finance management can be further improved by strengthening the oversight of GOCCs**. The authorities have made progress in managing risks, for example by monitoring and analyzing the financial position of GOCCs and measuring quasi-fiscal activities, and the financial reporting of three GOCCs (SSS, GSIS, PhilHealth) is now consistent with international standards. Further steps are necessary to ensure that GOCCs systematically report their PPP operations to accurately reflect their fiscal costs and contain risks. It is also critical that GOCCs identify and measure their public service obligations (PSOs) which are rarely fully and transparently compensated by the government, resulting in widespread quasi-fiscal activities (QFAs). In line with IMF TA, PSOs and QFAs should be regularly scrutinized, including through better fiscal risk monitoring and management frameworks, to ensure that decisions on government guarantees are informed by risk assessments.

**31. Augmenting the authorities' medium-term fiscal framework (MTFF) with explicit fiscal anchors will help ensure fiscal sustainability**. Recently, the Philippines published a six-year MTFF that guides the macroeconomic and fiscal policies of the government. While expanding the medium-term horizon beyond 3 years is welcome, the publication of a medium-term revenue strategy (MTRS) with concrete targets and explicit measures, supported by sustained government commitment can help establish fiscal credibility by showing the path to reach the authorities' medium-term fiscal targets. Formalizing the authorities' indicative debt-to-GDP ratio cap of 60 percent with deficit or spending targets as intermediate objectives can also contribute towards fiscal credibility.

***Authorities' Views***

**32. There was broad agreement on the need and pace of fiscal consolidation**. The authorities planned to maximize the gains from the recent comprehensive tax reform program which started in 2018 and would pursue the remaining few elements of the reform. They also believed that higher revenue mobilization can be achieved through improved tax administration such as digitalization and modernization efforts of the Bureau of Internal Revenue and Bureau of Customs. They emphasized that several tax reform measures were included in the 2023 budget, including the rationalization of the mining fiscal regime, VAT on digital service providers, imposition of excise taxes on single-use plastic bags, and adjustment of the excise tax on pre-mixed alcoholic beverages.

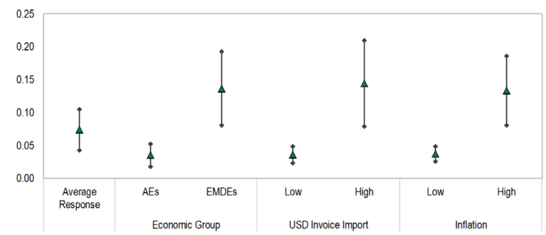
**33. The authorities indicated that the current administration is focused on expenditure control and efficiency**. They have several priority legislative initiatives—National Government Rightsizing Program, Military and Uniformed Personnel (MUP) Pension Reform, and Budget Mobilization Bill (BMB). They also emphasized that their BMB will institutionalize the implementation of the Cash Budgeting System and other key PFM reform initiatives, including the digitalization of the PFM system. The authorities acknowledged the need to improve PFM through greater oversight of the GOCCs.

## D. Managing Downside Risks

**34. Downside risks dominate in the near term and primarily involve an escalation of adverse shocks that are shaping the baseline (Appendix II)**. Two scenarios were considered, using an estimated linearized variant of the New Keynesian model (Adrian et al, 2021). In the first scenario, inflation remains stubbornly high in the Philippines and globally, financial conditions around the world continue to tighten, triggering a "risk-off" environment with significant and disorderly capital outflows from emerging market economies. The second scenario assumes a similar "risk-off" environment but allows for a steeper import price Philips curve and thus a higher degree of pass-through from the real exchange rate to core inflation.

**35. An analysis of frictions, in line with the Integrated Policy Framework (IPF), suggests a role for FXI in the Philippine policy toolkit under certain conditions**.[16] While the Philippine banks have only moderate currency mismatches, suggesting less need to stabilize the exchange rate to avert negative balance sheet effects, the foreign exchange market is often shallow and hence subject to periods of illiquidity. Philippine trade is also largely invoiced in USD, resulting in the short-term response of trade to exchange rates manifesting mostly through imports. Given these frictions, FXI can be used to lean against disorderly exchange rate depreciation in the adverse scenarios reducing the policy trade-off between inflation and output.

**Exchange Rate Pass-Through to Inflation**
(Percent change in inflation, maximum response up to 12 months)




Source: IMF staff calculations.
Note: Sample includes 46 advanced and emerging economies, with data at monthly frequency since 1985. Estimates show the response of headline CPI against a 1% increase (depreciation) in local currency/USD. Error bars denote the confidence intervals for 90% significance. Standard errors are clustered at country level. Observations are separated into low/high groups based on the median level of each variable across the full sample.

**36. An integrated policy approach with the coordinated use of fiscal, monetary, and exchange rate policies may help alleviate policy tradeoffs**.[17]

- The combination of shocks cause a real exchange rate depreciation of around 10 percent in both scenarios. Monetary policy is tightened, and in the absence of FXI, inflation peaks at 150 basis points above the baseline in scenario 1 and 225 basis points in scenario 2. When FXI is used alongside monetary tightening, the exchange rate depreciates by less, and inflation is reduced by 40 basis points in scenario 1 and by 70 basis points in scenario 2. In both scenarios, the use of FXI helps limit the loss in output.

[16] IMF, 2020, Toward an Integrated Policy Framework, IMF Policy Paper, International Monetary Fund, Washington, DC.

[17] Policies under downside risks are discussed in more detail in selected issues paper "Application of the Integrated Policy Framework to the Philippines" using scenario analysis and an illustration of the use of multiple instruments and policy tradeoffs.

- All else equal, if the exchange rate pass-through is higher (scenario 2), using FXI to stabilize the exchange rate can have a stronger benefit. In scenario 2, FXI lowers the policy rate path by 40 basis points and reduces the output loss to less than 3 percent below the baseline.

- The risks of a large depreciation on potential FX mismatches are relatively small in the Philippines given limited direct FX exposures and reliance on short-term wholesale funding. But by reducing the need for a larger policy rate hike, FXI can also reduce financial stability risks.

- A monetary policy response combined with fiscal stimulus (1.5-2 percent of GDP over 5 years) would limit the deterioration in the output gap but at the cost of somewhat higher inflation and higher interest rates, crowding out private domestic demand. However, under scenarios where growth deteriorates significantly, the justification for additional fiscal support is strong as the trade-off between inflation and output becomes smaller. Under both scenarios, public debt would increase but remain sustainable (Appendix IV).

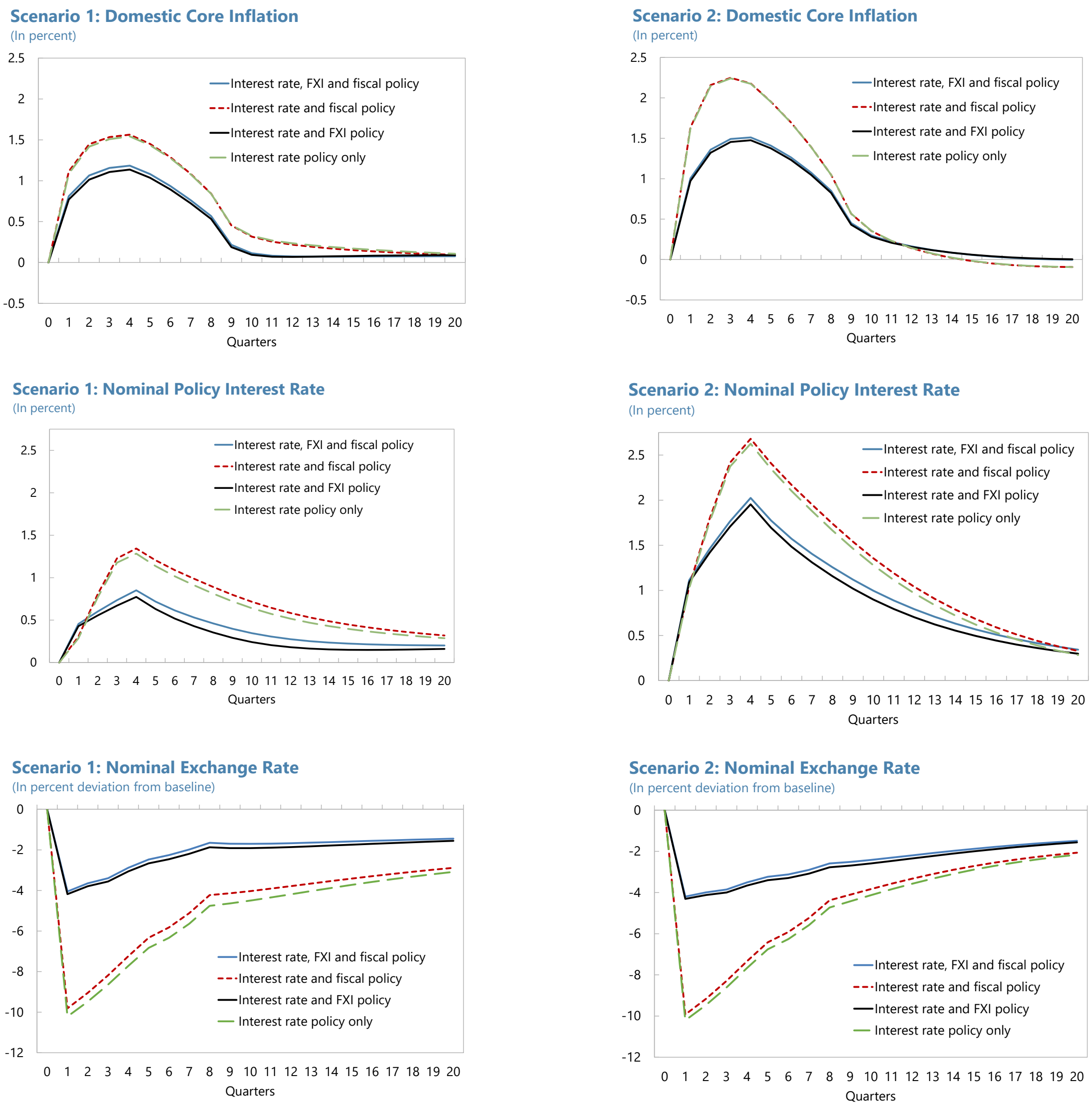
**37. The appropriate mix of policies will depend on the nature of the shocks and initial conditions**. With the robust recovery this year, the output gap is effectively closed. Inflation has been mostly supply-driven, FX mismatches in the banking sector are small, and the exchange rate is assessed to be consistent with the level implied by fundamentals. A well-measured response to adverse shocks should take these considerations into account. Monetary policy should be the first line of defense against persistent inflationary pressures and the exchange rate should continue to act as a shock absorber against external shocks. However, FXI can support monetary policy when there is a risk that a large change in the exchange rate may de-anchor inflation expectations. Similarly, discretionary fiscal spending that is well targeted can protect vulnerable households from adverse shocks without contributing to further inflationary pressures. A credible plan to bring down debt over the medium-term would reinforce confidence. Finally, while the use of FXI can alleviate monetary policy tradeoffs, it should not be used to support a misaligned exchange rate or as a substitute for warranted monetary and fiscal policy adjustment. Benefits of FXI depend critically on its effectiveness in moving the exchange rate, which can vary over time, and the costs and unintended consequences of FXI should be carefully considered.

***Authorities' Views***

**38. The authorities welcomed staff's work on the integrated policy framework (IPF)**. They noted that the IPF is consistent with their practice of jointly using interest rate and FXI policies in periods of market dysfunction and encouraged further customization of IPF to individual country circumstances. They agreed that the mix of policies will depend on the nature of the shocks and underlying frictions, and in response to persistent inflationary pressures, monetary policy should be the main policy lever. FXI is futile in responding to fundamental shifts in the global economy, for example, in the current juncture to lean against an exchange rate depreciation that is fundamentally driven by higher interest rates in the U.S. However, FXI has been effective in containing excessive intra-day volatility. They added that any benefit from FXI needs to be weighed carefully against reserve losses as investors hold emerging market economies to a higher ARA standard.

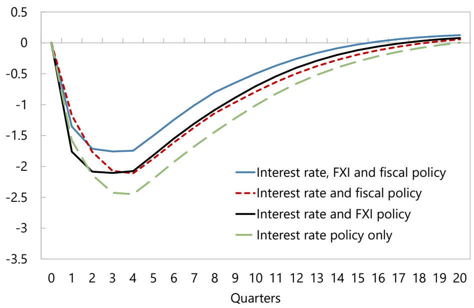
**39. The authorities will continue to use multiple policy tools to manage downside risks and maintain macroeconomic stability**. The BSP can deploy liquidity enhancing and management tools to address short term market volatility as well as macroprudential measures to mitigate financial stability risks. In addition, the continued recovery in structural flows such as increases in remittances, BPO and tourism receipts, and foreign direct investment could partly offset the negative impact of external risks.

## Downside Risk and Policy Scenarios

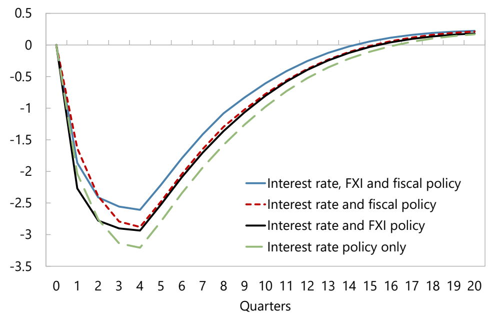


## Downside Risk and Policy Scenarios (Concluded)

Scenario 1: Output Gap
(In percent)




Scenario 2: Output Gap
(In percent)




## E. Structural Policies: Mitigate Scarring and Raise Potential Growth

**40. Building upon its recent track record, the Philippines should accelerate reforms to reignite productivity, enhance social development, and address climate change**. Scarring from the pandemic as well as the delayed recovery in sectors that were hit hard during the pandemic (e.g., tourism and construction)[18] have lowered staff's estimate of medium-term potential growth to 6.0-6.3 percent. As outlined in its blueprint, the new administration is committed to returning the Philippines to its pre-pandemic growth trend and reduce poverty, while increasing the resilience of the economy to adverse shocks. It has emphasized infrastructure and agricultural development, investment in health and education, food security, digitalization, and addressing climate change as critical to reducing poverty and raising the Philippine's growth potential.

**41. Achieving the country's ambitious growth objectives and creating quality jobs will require further efforts to reduce infrastructure and education gaps and improve competitiveness**.

- The *Build, Better, More* program has spurred a needed shift in public expenditure toward pro-growth infrastructure projects. Focus should be placed on improving investment efficiency and developing LGU capacity to implement the Mandanas ruling. Civil society participation could help ensure additional resources granted to LGUs are used transparently and effectively.

- Further investments in education and training, including upskilling and reskilling programs, are necessary to help offset pandemic-induced losses in human capital, facilitate transition into higher-income jobs, and address the stark inequality in human capital outcomes across the country. Reducing the poverty rate from 23.7 percent in the first half of 2021 to single digit by 2028 will require access to quality education.

[18] See selected issues paper "Potential Output and Scarring Effects", prepared for the Philippines 2021 Article IV.

- Effective implementation of several key legislations will boost competitiveness, attract foreign investment, and promote jobs, including in light manufacturing, transport, energy, and ICT.[19]

- Ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement should also spur foreign direct investment, enhance access to imports, and stimulate export diversification.

- In the agriculture sector, the Rice Tariffication Law (RTL) has yielded important benefits in terms of food affordability.[20] To ensure that the interests of domestic farmers go together with liberalization efforts, the resources of the Rice Competitiveness Enhancement Fund should effectively be used to invest in mechanization, seed development, and credit assistance. In the current high inflation environment, liberalizing imports of other agricultural products also stands to benefit Filipino consumers.

**42. Better harnessing the benefits of the digital economy, and further progress in the digitalization of public services will support growth and social objectives**. The introduction of a digital national ID system, with more than 72 million citizens registered to the Philippines Identification System as of end-August 2022, is expected to lead to enhanced tax administration and improved delivery of social programs. Recent analysis by the World Bank highlights the need to expand existing well defined social protection systems (such as the 4Ps conditional cash transfer program), develop a dynamic social registry with regular updates, and better leverage digital tools such as the National ID system to enhance social protection delivery.[21] The benefits of digitalization can also extend to the launch of a wholesale central bank digital currency (CBDC) to enhance the country's payment system and reduce cross-border transaction costs. If the decision is ultimately taken to launch a wholesale CBDC and if properly designed and implemented, the wholesale CBDC could address challenges related to large cross-border transfers and reduce reliance on costly correspondent banking networks (Appendix VII).

**43. Climate change policies could benefit from a more integrated strategy that includes a carbon pricing scheme**. The Philippines' efforts to green the economy are welcome.[22]Nevertheless, the assumptions underlying its Nationally Determined Contribution (NDC) target need to be revisited to align it with realistic goals. This should be supported by a clear analysis of the benefits of carbon pricing for the economy, policies to address distributional implications, and efforts to promote innovative financing. With limited government resources, additional financial support from

[19] The legislations include: (i) amendments to the Retail Trade Liberalization Act that reduce the minimum paid-up capital and minimum investment requirements for foreign retail enterprises; (ii) amendments to the Foreign Investment Act that allow international investors to set up and wholly own domestic enterprises, including micro and small enterprises; and (iii) amendments to the Public Service Act allowing up to 100 percent foreign ownership of public service companies, with the exception of those considered "public utility" and "critical infrastructure".

[20] The authorities estimate that over the long run, the RTL will help reduce the incidence of poverty by 1.2 percentage points and reduce the proportion of malnourished children by 2.8 percent by 2025.

[21] World Bank Document, World Bank, March 2022, COVID-19 Social Assistance in the Philippines: Lessons for Future Resilience.

[22] These include targeting an increase in the use of renewables, placing a moratorium on new coal plants, banning single use plastic, and allowing a 100 percent foreign ownership in large-scale geothermal energy projects.

development partners and the private sector is essential to attract foreign investors, increase the share of renewables in the energy mix, and develop climate-resilient infrastructure.

### Box 2. Climate Change: Mitigation, Transition, and Financing[1]

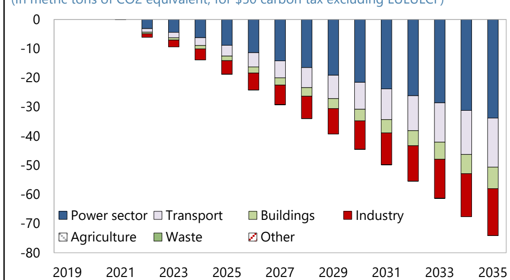
**Philippines could consider adopting a net zero target for greenhouse gas (GHG) emissions around mid-century**. Philippine's NDC currently specifies an unconditional target of cutting GHGs 2.7 percent below baseline level in 2030 or 75 percent below baseline, conditional on external support. As Philippines revises its NDC for COP27 in November 2022, setting a mid-century net zero target and aligning the unconditional target with long-run GHG neutrality, would give greater certainty to firms and households of the Philippines' mitigation objectives and planned emissions trajectory.

**Carbon pricing would ideally be the centerpiece of policies to implement emissions targets**. A carbon price rising to $50 per ton in 2030 would cut GHG emissions 14 percent below 2019 levels while mobilizing revenues of 1.5 percent of GDP. Most reductions would come from the power and industrial sectors. The carbon price would increase natural gas, electricity, and gasoline prices by 32, 12, and 22 percent, respectively, relative to baseline levels in 2030. Additionally, it would raise the renewable share in electricity generation to 40 percent in 2030 – well above the authorities' target of 30 percent. Overall, the reform could lead to net welfare benefits of 0.2 percent of GDP.

**Complementary measures are needed to enhance the acceptability and effectiveness of the mitigation strategy**. Using carbon pricing revenues to cut labor income taxes or to fund productive public investments, while also compensating low-income households can be both pro-growth and pro-poor. Carbon pricing should also be reinforced by mitigation instruments like feebates at the sectoral level. Other measures include public investment in clean infrastructure, pricing of broader emissions sources (e.g., in forestry), and assistance for vulnerable regions, workers, and firms.

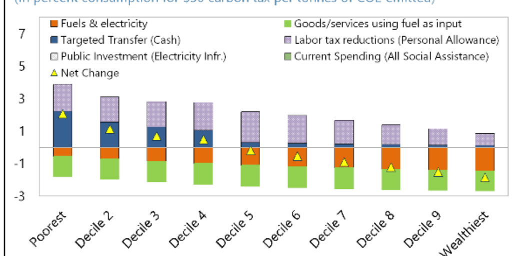
**Climate finance remains critical to achieve Philippines' climate change objectives**. Of the announced 75 percent GHG emissions reduction objective, the government estimates that only 3.6 percent could be achieved through the country's own resources, while the remaining 96.4 percent is conditional on international assistance. Additional support from bilateral and multilateral development partners will be required, building on existing support already extended though institutions such as the Asian Development Bank and climate funds such as the Global Environment Facility. In that context, robust transparency and accountability mechanisms can boost donor confidence. The authorities are also seeking to stimulate private sector financing, including through the issuance of sustainable bonds and a taxonomy to define and identify green and transitional economic activities.

**Abatement of GHGs by Sector**
(In metric tons of CO2 equivalent, for $50 carbon tax excluding LULULCF)




Sources: UN, Framework Convention on Climate Change; World Resource Institute; and IMF staff estimates.

**Relative mean Consumption Effect, 2030 1/**
(In percent consumption for $50 carbon tax per tonnes of CO2 emitted)




Sources: UN, Framework Convention on Climate Change; World Resource institute; and IMF staff estimates.
1/ Assuming 75% of revenues are used for labor tax reducyion and 15% for targeted transfers aimed at the bottom 40% of the income distribution.

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[1] Prepared by Ragnar Gudmundsson and Sarwat Jahan based on the selected issues paper on "A Climate Change Mitigation Strategy for the Philippines" authored by S. Black, I. Perry, and K. Zhunussova. Estimates are derived from the IMF's Climate Policy Assessment Tool.

***Authorities' Views***

44. **The authorities agreed that policies to develop infrastructure, raise productivity, and strengthen social protection should support higher medium-term growth targets**. Infrastructure development will remain a priority of the new administration and will benefit from enhancements to the legal framework for public private partnerships, including through recent amendments to the Build, Operate, and Transfer Law. They are confident that recent legislation to spur additional foreign direct investment will contribute to higher output in transport, telecommunications, and stimulate greater competition domestically. In addition, the sharper focus on quality education for job creation and improved access to health and nutrition services in the context of the 2023-28 Philippine Development Plan will help mitigate scarring from the pandemic. To enhance food security and achieve productivity gains in agriculture, the authorities intend to scale up investments in research and development on better seeds, shell-life extending technologies, climate change adaptation, rationalize subsidies including import tariff and non-tariff barriers, promote farm clustering and consolidation, and scale up mechanization, among others.

45. **The authorities agreed on the importance of addressing climate change through a realistic financing strategy but were more cautious about the feasibility of carbon taxation**. They highlighted ongoing efforts to incentivize financing for green or sustainable projects and to develop a taxonomy to operationalize the Philippines Sustainable Finance Guiding Principles, while providing guidance on environmental and social risk management in the banking sector. The authorities also highlighted prioritized budget allocations for climate change mitigation and adaptation as well as legislative priorities like the excise tax on single-use plastic bags. While they recognize the merits of carbon taxation, they underscored the challenges stemming from the current inflationary environment and political pressures to provide fuel subsidies and lower existing fuel excise taxes.

# STAFF APPRAISAL

46. **Sustained reforms and disciplined macroeconomic policies proved decisive in steering the Philippines out of a sharp pandemic-induced recession, but the outlook is overshadowed by a more uncertain global environment**. Underpinned by very sound fundamentals, the economy is recovering at a swift pace, credit growth has picked up, and the banking system has shown resilience, coming out of the pandemic with sufficient liquidity and capital buffers. However, a difficult global environment is weighing heavily on the Philippine economy. Amid US dollar strength, high commodity prices, and tightening global financial conditions, inflation has increased sharply, the external position has weakened, and fiscal space has narrowed.

47. **Calibrating the policy mix to preserve macroeconomic stability, enhancing fiscal and financial resilience, and accelerating structural reforms are critical to sustain the recovery**. Monetary and fiscal policy are aligned in the right direction to support external and domestic balance. A tightened policy stance will keep inflation expectations anchored and help alleviate pressure on capital outflows and the exchange rate. Exchange rate flexibility remains important as a

shock absorber against the backdrop of a persistent terms of trade shock and a wider current account deficit. Policies will have to remain nimble, carefully balancing growth and price stability objectives, while managing limited fiscal buffers, preserving financial stability, and ensuring external sustainability.

48. **The BSP's prompt action to fight inflation is welcome, but further monetary tightening may be needed to keep inflation expectations well anchored**. The current policy stance remains accommodative, and BSP should aim at bringing the policy rate close to the neutral real rate to securely bring inflation within the target range. Should inflation pressures continue to rise, the BSP should respond with a tighter policy stance. Similarly, if inflation proves less persistent, or if significant downside risks to growth materialize, monetary policy tightening would need to be recalibrated. Clear communication about inflation and the BSP's policy intentions can help reduce uncertainty and improve policy transmission.

49. **Higher downside risks to growth and rising interest rates warrant close monitoring of financial stability risks**. Despite some improvement in profitability and debt servicing capacity, the pandemic has increased risks in NFCs, which may face renewed challenges with rising interest rates. These risks can be amplified through "mixed" conglomerate structures that include NFCs and financial institutions, and in sectors with a relatively high debt burden. To enhance resilience, the BSP's capacity to conduct financial stability risk assessments and the bank resolution framework should be strengthened. In addition, with the recovery underway, regulatory forbearance measures should be allowed to lapse as scheduled.

50. **Enhanced AML/CFT effectiveness is critical to support a swift and successful exit from the FATF list**. Key items under the Philippines AML/CFT Action Plan include risk-based AML/CFT supervision of high-risk sectors, and access to beneficial ownership information by competent authorities. Separately, prioritizing amendments to the bank secrecy law will enhance the BSP's supervisory powers, strengthen AML/CFT effectiveness and reduce vulnerabilities to corruption.

51. **Fiscal consolidation over the medium-term should be underpinned by stronger revenue mobilization and cost-effective government spending**. While the near-term fiscal stance is appropriate, an accelerated pace of consolidation in the medium-term would allow the government to signal its intent to put debt on a firmly downward trajectory. There is ample scope to enhance revenue mobilization, which can underpin a faster medium-term fiscal consolidation, while securing resources for the authorities' social and development plans. Augmenting the medium-term fiscal program with explicit fiscal anchors and a medium-term revenue strategy would further support fiscal credibility and debt sustainability**.**

52. **The coordinated use of fiscal, monetary, and exchange rate policies can help alleviate policy tradeoffs under downside risk scenarios**. Monetary policy should be the first line of defense against persistent inflationary pressures. Under a scenario of disruptive market conditions and tightening FX liquidity, the use of FXI can mitigate a sharp and disorderly exchange rate depreciation, alleviate inflation, and reduce some of the pressure on monetary policy. If growth falls

below the baseline, fiscal policy can be deployed to support the economy by slowing the pace of fiscal consolidation, though this could come at the cost of higher inflation and interest rates, and a higher debt burden over the medium-term.

**53. Ambitious development goals call for further reforms to raise productivity, boost competitiveness, and enhance social development**. Infrastructure and education gaps that have been made worse by the pandemic should be addressed as a priority. Recently passed legislations which aim to attract FDI are welcome, but effective implementation will be key. Ratification of the Regional Comprehensive Economic Partnership (RCEP) Agreement would facilitate access to imports and stimulate export diversification. Efforts to enhance food security and strengthen agricultural performance should focus on raising productivity and promoting new investments in the sector. Further progress in digitalization and better harnessing the benefits of a digital economy will also support growth and social objectives and strengthen governance.

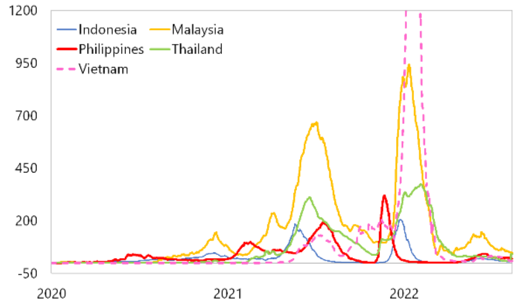
**54. Climate change policies will benefit from an integrated strategy that includes a carbon pricing scheme, innovative private sector financing, and support from development partners.** The authorities are committed to addressing the impacts of climate change and greening the economy. In this regard, financing the Nationally Determined Contribution (NDC) target will benefit from the introduction of carbon pricing, developing policies to address its distributional implications, and accelerating efforts to incentivize green financing. With limited government resources, additional financial support from development partners and the private sector is essential to attract foreign investors, increase the share of renewables in the energy mix, and develop climate-resilient infrastructure.

**55. It is expected that the next Article IV consultation take place on the standard 12-month cycle**.

## Figure 1. COVID-19 Developments

*Daily cases in the Philippines stabilized after the third wave, but may pick up as the economy reopens.*

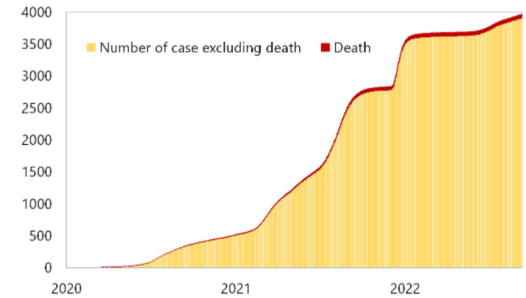
**ASEAN: Number of New Cases**
(7-day moving average, every 1 million population)




Sources: World Health Organization; and IMF staff estimates.

*The pandemic has taken a human toll in the Philippines, as it has in other countries.*

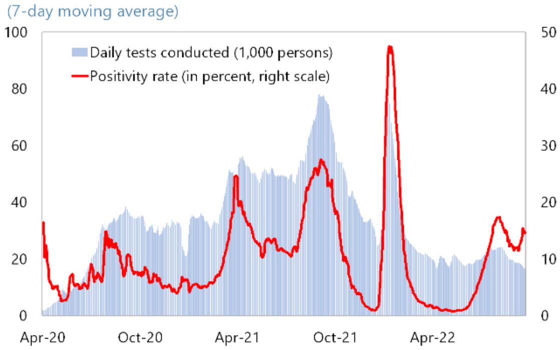
**Confirmed Case and Death**
(In thousand)




Sources: Philippines Department of Health via CEIC Data Co. Ltd; and IMF staff estimates.

*Test positivity rates have fluctuated.*

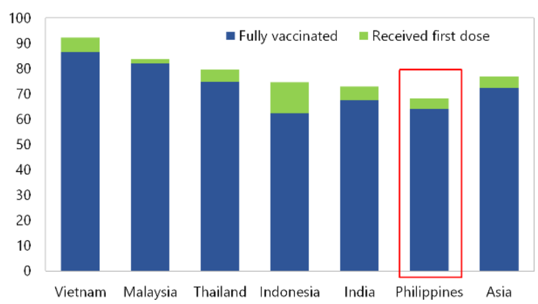
**Daily Tests and Positivity Rate**
(7-day moving average)




Sources: Philippines Department of Health; and IMF staff estimates.

*Vaccination rates are rising but remain below peers.*

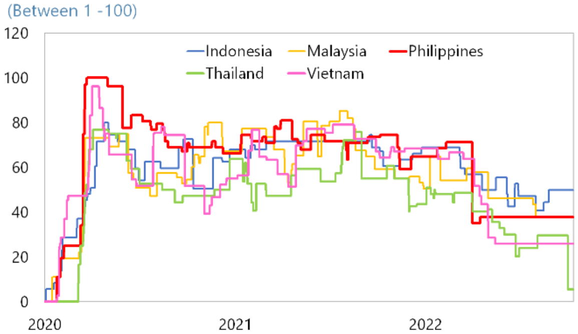
**Vaccinated People for COVID-19 1/**
(In percent of population)




Sources: Our World in Data via CEIC; PHL authorities data; and IMF staff estimates.
1/ As of October 10, 2022 or latest available data.

*Pandemic restrictions are eased as the economy reopens…*

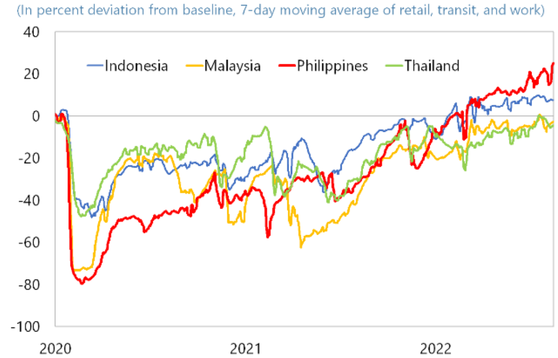
**ASEAN: Index of COVID-19 Containtment Policy Stringency 1/**
(Between 1 -100)




Source: University of Oxford, The Oxford COVID-19 Government Response Tracker.
1/ The index records the strictness of lockdown style policies; not scoring the appropriateness or effectiveness of a country's response. A higher number does not necessarily mean better.

*…and mobility has increased.*

**ASEAN: Mobility Trends**
(In percent deviation from baseline, 7-day moving average of retail, transit, and work)

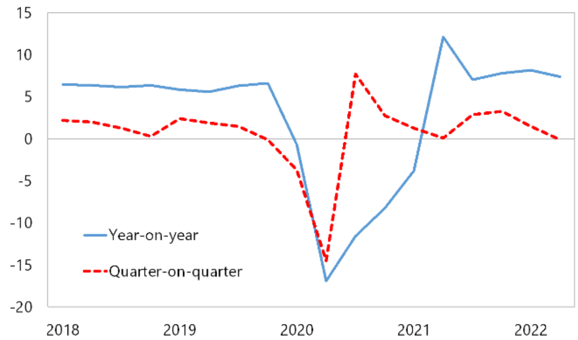



Sources: Google, COVID-19 Community Mobility Reports; and IMF staff estimates.

## Figure 2. Drivers of Growth

*Real GDP contracted in 2020:H1 and has recovered since.*

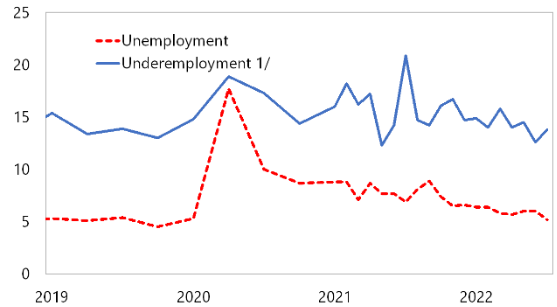
**Real GDP Growth**
(In percent)




Sources: Haver Analytics; and IMF staff estimates.

*Unemployment rate has receded, but under-employment remains high.*

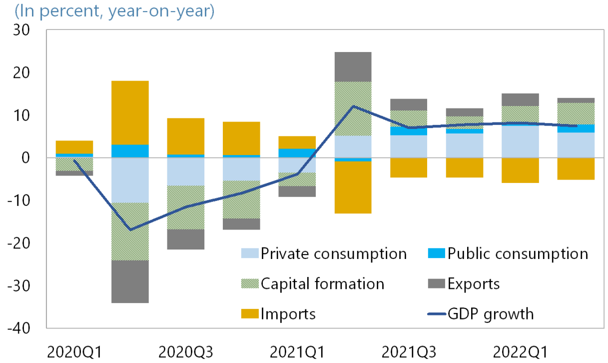
**Unemployment and Underemployment Rate**
(In percent)




Source: Philippines Statistics Authority.
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.

*Private consumption drove the increase in real GDP.*

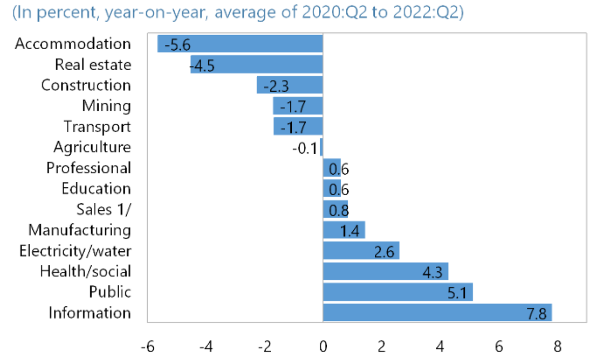
**Contribution to Real GDP Growth**
(In percent, year-on-year)




Sources: Philippine Statistics Authority via Haver Analytics; and IMF staff estimates.

*Recovery of contact-intensive industries (e.g., accommodation, transport, construction) have been lagged.*

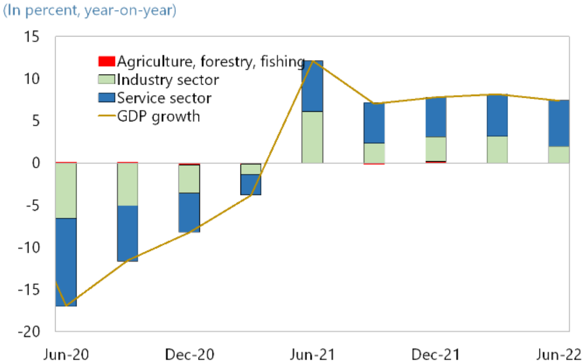
**Sectoral Growth Rates**
(In percent, year-on-year, average of 2020:Q2 to 2022:Q2)




Sources: Haver Analytics; and IMF staff estimates.
1/ Wholesale and retail trade; repair of motor vehicles and motorcycles.

*Economic activity has improved, in both industry and service sectors.*

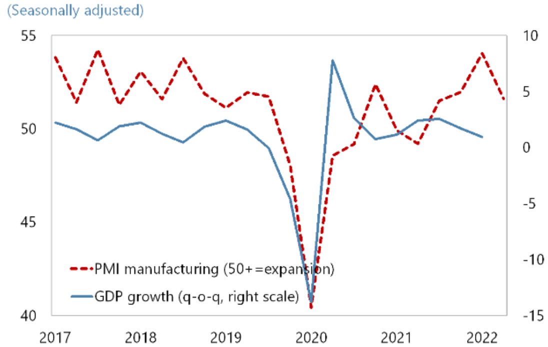
**Contribution to Growth, Production Side**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*PMI remains solid, but recently started moderating.*

**Growth and Purchasing Manager Index**
(Seasonally adjusted)

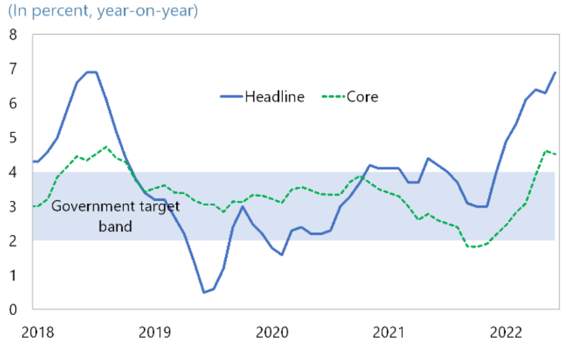



Sources: Haver Analytics; and IMF staff estimates.

## Figure 3. Inflation Dynamics

*Inflation started increasing noticeably and rose above the government's target band.*

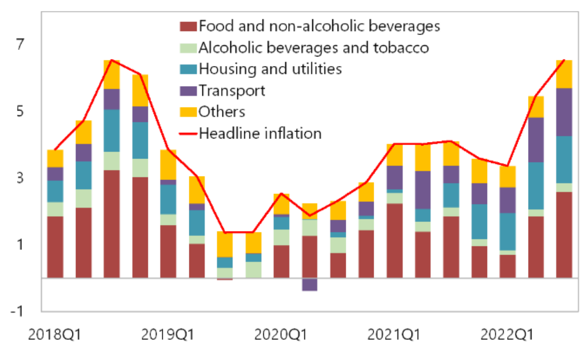
**Consumer Price Inflation**
(In percent, year-on-year)




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

*...mainly due to higher food and utilities prices.*

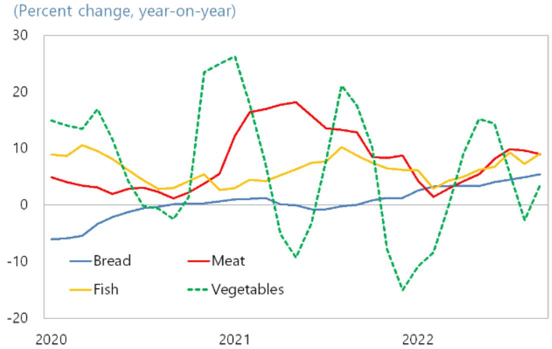
**Contribution to Inflation**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*Higher food prices have been driven by the adverse supply shocks.*

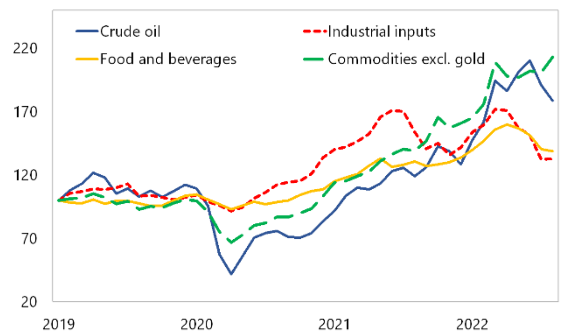
**Food Prices**
(Percent change, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*Commodity prices have been increasing, in part due to the war in Ukraine*

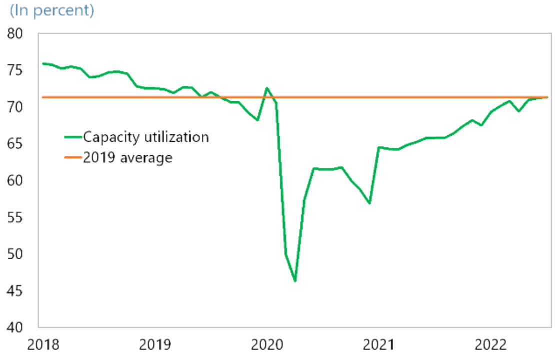
**Global Prices**
(Index, January 2019=100)




Sources: IMF, Global Commodity Prices; IMF staff estimates.

*Capacity utilization has been returning to pre-pandemic levels.*

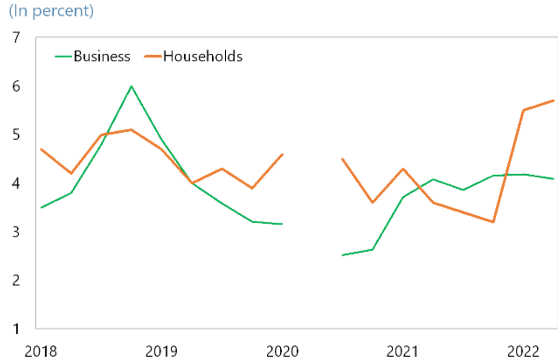
**Manufacturing Capacity Utilization**
(In percent)




Sources: Philippine Statistics Authority; and IMF staff estimates.

*Short-term inflation expectations have edged up recently.*

**Inflation Expectations for Next 12 Months**
(In percent)

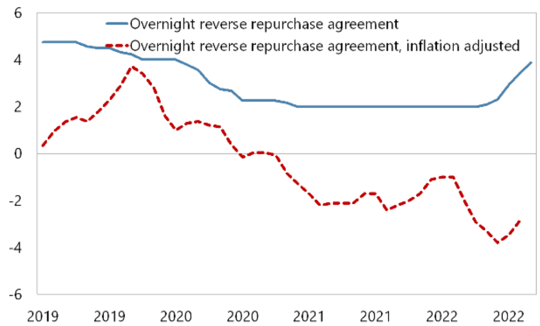



Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

## Figure 4. Monetary and Financial Conditions

*The BSP has started to withdraw monetary stimulus, increasing the policy rate in response to inflation pressures….*

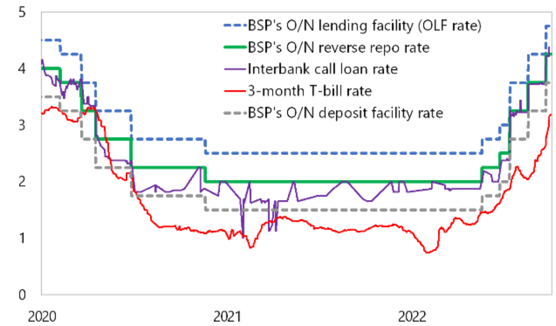
**Policy Rate**
(In percent)




Sources: Haver Analytics; and IMF staff estimates.

*…and other short-term interest rate also increased.*

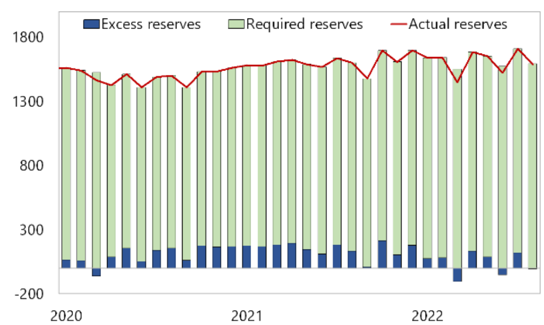
**Policy, Interbank and T-Bill Rates**
(In percent)




Sources: Bloomberg L.P.; CEIC Co. Ltd.; and Haver Analytics.

*Reserve requirement reduction contributed to the increase in placements in the overnight and term deposit facilities.*

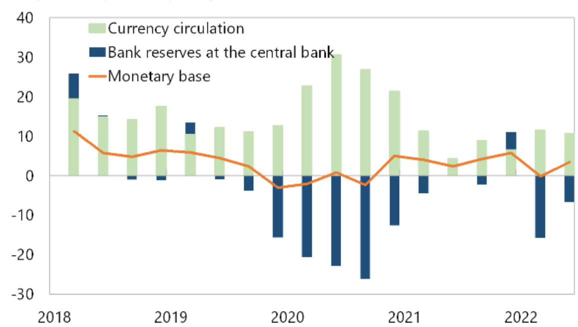
**Bank Reserves**
(In billions of peso)




Sources: Bangko Sentral ng Pilipinas via CEIC Data Co. Ltd.; and IMF staff estimates.

*The monetary base decreased recently driven by lower bank reserves at the central bank.*

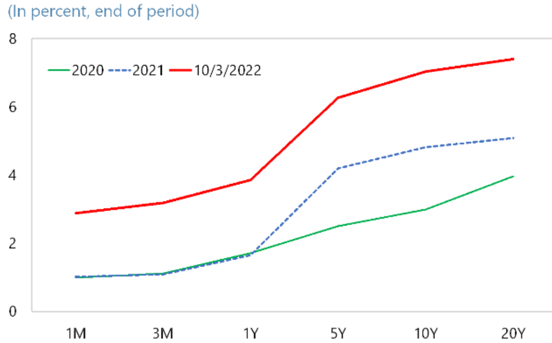
**Monetary Base Growth**
(In percent, year-on-year growth)




Sources: IMF, Monetary Financial Statistics; CEIC Data Co. Ltd.; and IMF staff estimates.

*Yields have risen for longer maturity bonds…*

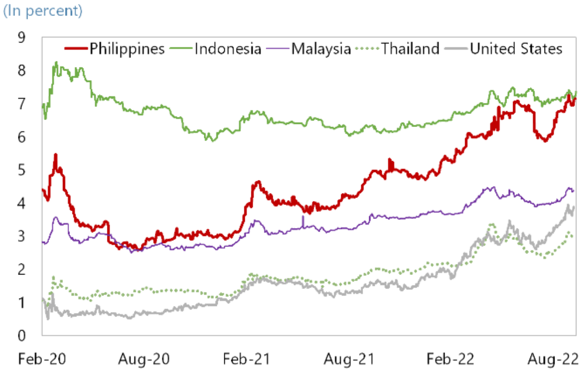
**Government Bond Yields**
(In percent, end of period)




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

*…influenced by the rise in U.S. yields.*

**10-year Domestic Government Bond Yields**
(In percent)

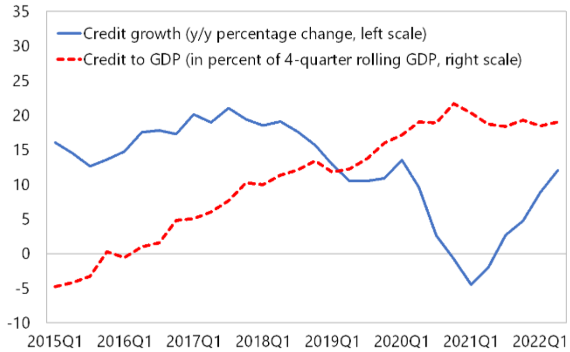



Source: Haver Analytics.

## Figure 5. Macrofinancial Linkages

*Credit growth has picked up, but remains below pre-pandemic growth rates*

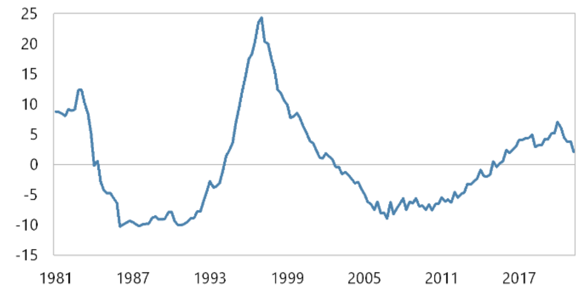
**Bank Credit Growth and Credit-to-GDP Ratio 1/**




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

*...and the credit gap remained positive in most of 2020 because of the contraction of GDP.*

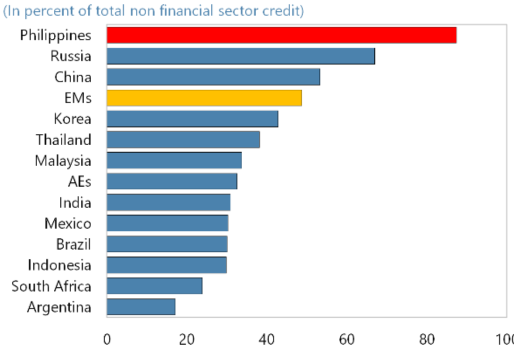
**Credit Gap 1/**
(In percent)




Sources: BSP via Haver Analytics; and IMF staff calculations.
1/ Ratio of depository corporations' credit to the non-financial sector to GDP, detrended using a two-sided HP filter, with smoothing paramater set to 400,000.

*Corporate loans outstanding accounts for over 80 percent of total loans...*

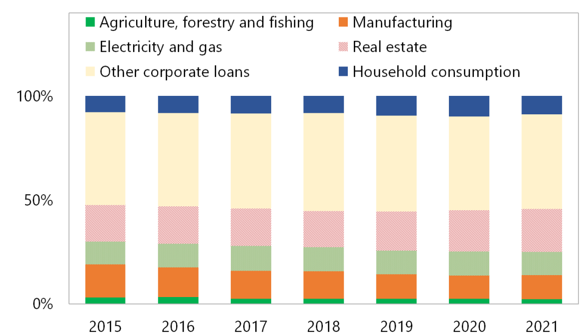
**Credit to Non-financial Corporates, 2021**
(In percent of total non financial sector credit)




Sources: BIS; Haver Analytics; and IMF staff estimates.

*... with real estate and construction accounting for a fairly large share.*

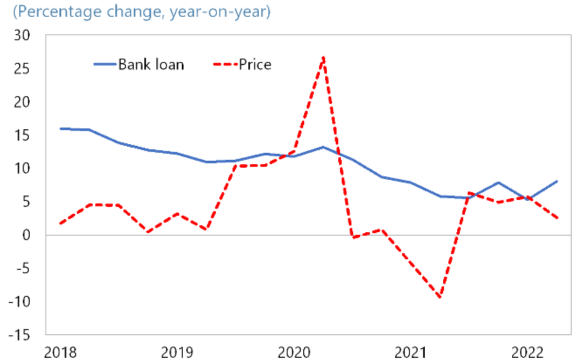
**Bank Loans by Sector**
(In percent of total)




Sources: Haver Analytics; and IMF staff etimates.

*Residential real estate prices and loans started recover somewhat...*

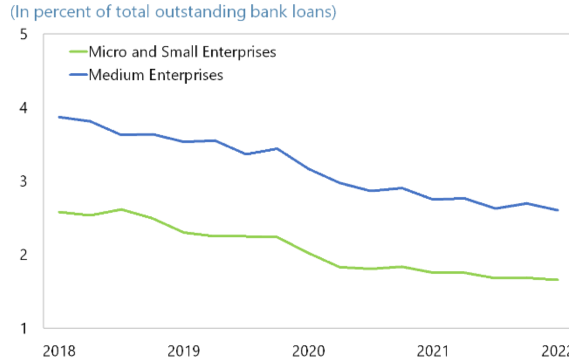
**Residential Real Estate: Bank Loan and Price Growth**
(Percentage change, year-on-year)




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

*...while the share of bank loans to micro, small and medium enterprises continued to decline.*

**Loans of All Banks to Micro-Small and Medium Enterprises**
(In percent of total outstanding bank loans)

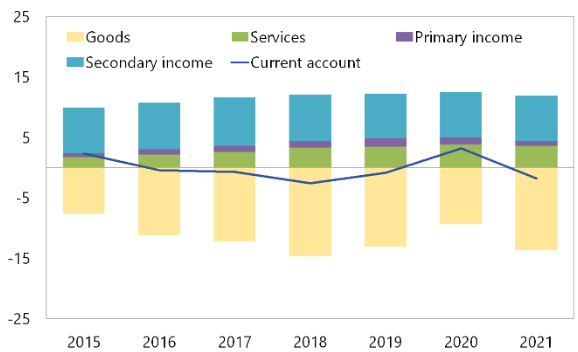



Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

## Figure 6. External Sector

*The current account balance moved back into deficit in 2021…*

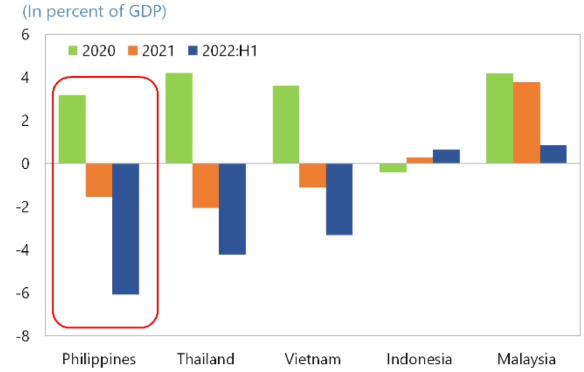
**Current Account Balance**
(In percent of GDP)




Sources: Haver Analytics; IMF staff estimates.

*…and was larger than in its peers in the region.*

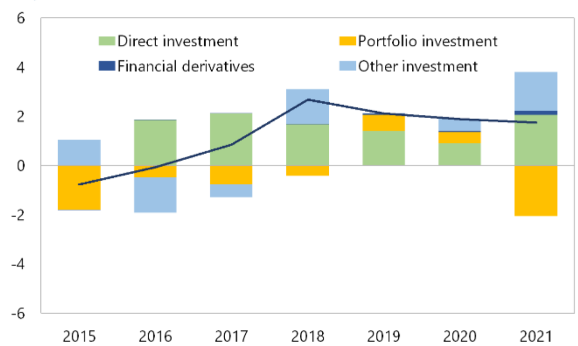
**Current Account Balance**
(In percent of GDP)




Sources: Haver Analytics; IMF staff estimates.

*Net inflows of FDI and other investment were much larger than the net outflows in portfolio investment in 2021.*

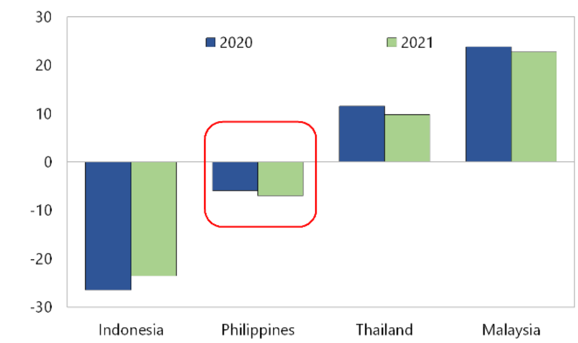
**Capital Flows**
(In percent of GDP, + = inflow)




Sources: Haver Analytics; IMF staff estimate.

*NIIP widened due to the current account deficit and higher foreign direct investment in 2021.*

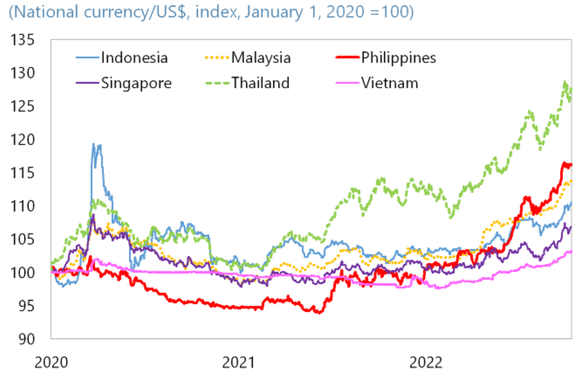
**Net International Investment Position**
(In percent of GDP)




Sources: Haver Analytics; and IMF staff estimates.

*With the current account in deficit, the peso continued to depreciate since the middle of 2021.*

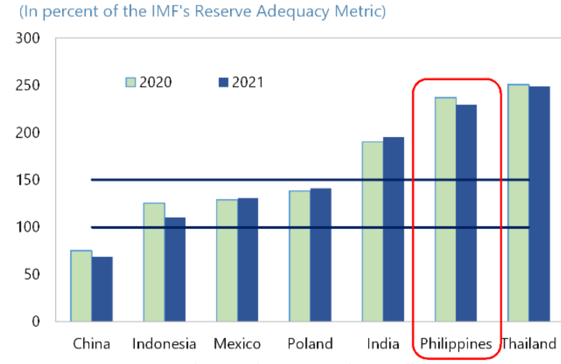
**Exchange Rates**
(National currency/US$, index, January 1, 2020 =100)




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

*The Philippines' foreign reserve decreased to US$109 billion in 2021 but still well above the IMF's reserve adequacy metric.*

**Gross International Reserves**
(In percent of the IMF's Reserve Adequacy Metric)

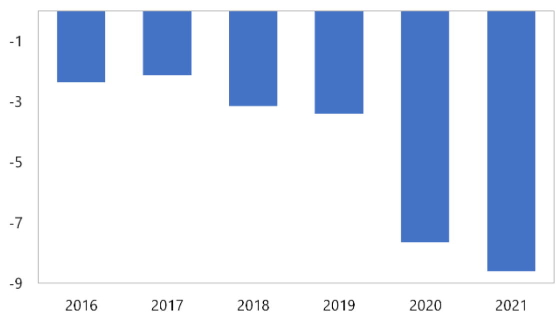



Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

## Figure 7. Fiscal Developments

*The overall budget deficit widened in 2021…*

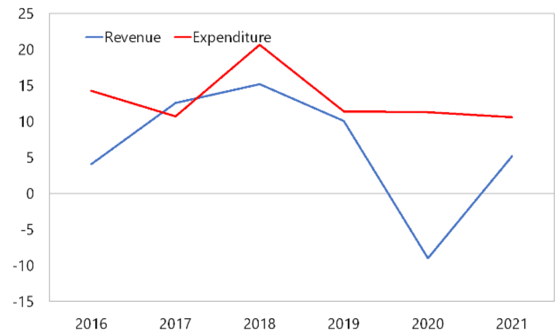
**National Government Overall Balance 1/**
(In percent of GDP)




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

*… as the strong recovery in revenue did not offset the increase in expenditure.*

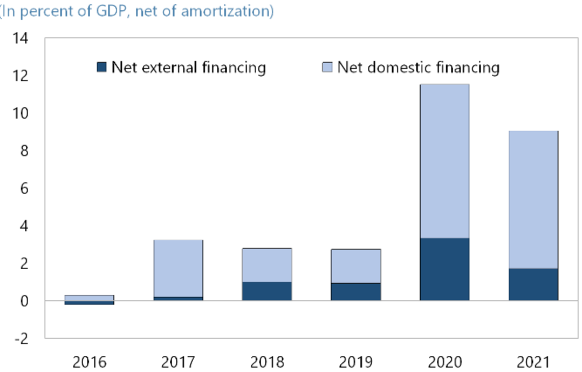
**National Government Revenue and Expenditure Growth**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*Fiscal financing has mostly relied on domestic resources.*

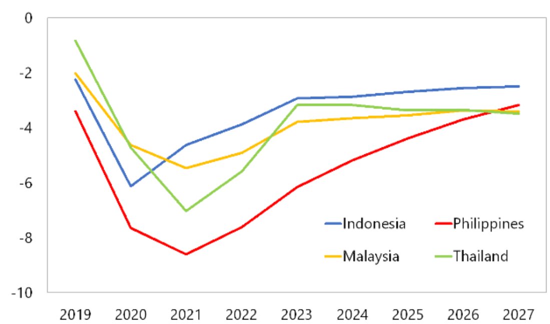
**National Government Financing by Sources**
(In percent of GDP, net of amortization)




Sources: Bureau of Treasury; and IMF staff estimates.

*Fiscal consolidation will start in 2022, but it will be more gradual compared to other ASEN peers.*

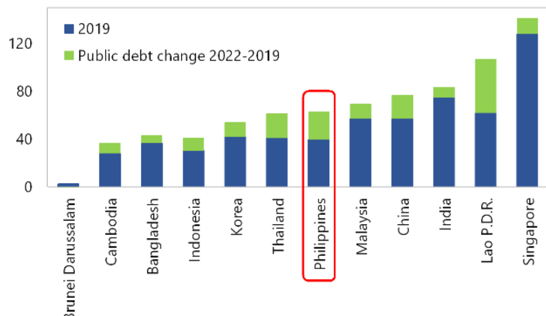
**Fiscal Balance**
(In percent of GDP)




Sources: IMF, World Economic Outlook; and IMF staff estimates.

*Nevertheless, its end-2022 debt-to-GDP ratio will remain comparable to its peers, but higher than pre-pandemic level.*

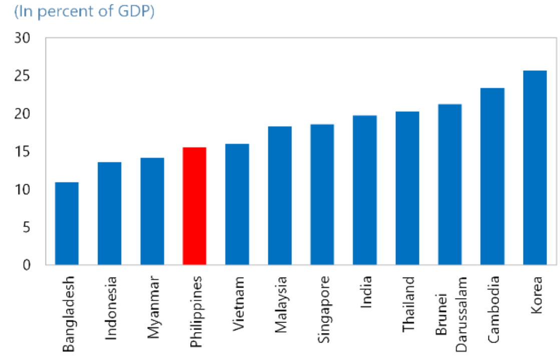
**Public Debt**
(In percent of GDP)




Sources: IMF, World Economic Outlook; and IMF staff estimates.

*Strengthening revenue mobilization is one option to rebuild fiscal space in the medium term.*

**Government Revenue, 2021**
(In percent of GDP)

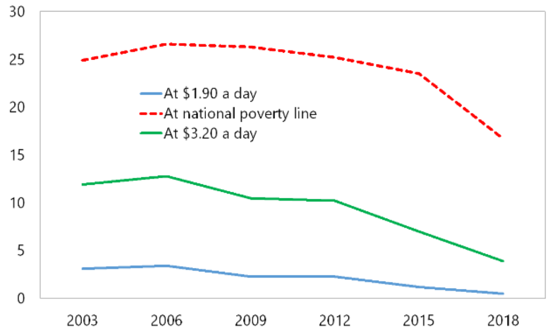



Sources: IMF, World Economic Outlook; and IMF staff estimates

## Figure 8. Poverty and Business Environment

*Poverty was falling before the pandemic…*

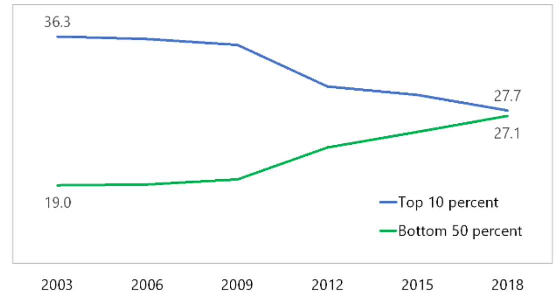
**Poverty Rate**
(In percent of population)




Source: World Bank, World Development Indicators via CEIC Data Co. Ltd.

*…and inequality improved markedly…*

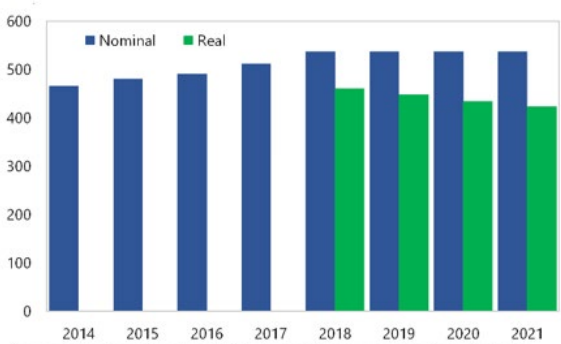
**Income Share Held by Top 10 and Bottom 50 Percent**
(In percent, deciles based on per capita annual income)




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

*…partly due to wage increases in those years, but wages have stagnated since 2019.*

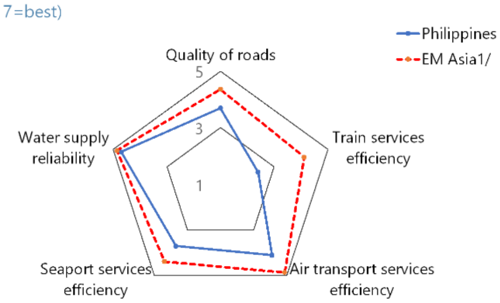
**Legislated Daily Wage Rate: Non-Agricultural Workers**
(In Peso)




Source: Philippines Department of Labor and Employment via Haver Analytics.

*Infrastructure gaps have contributed to a lack of high-quality non-agriculture jobs outside the national capital region.*

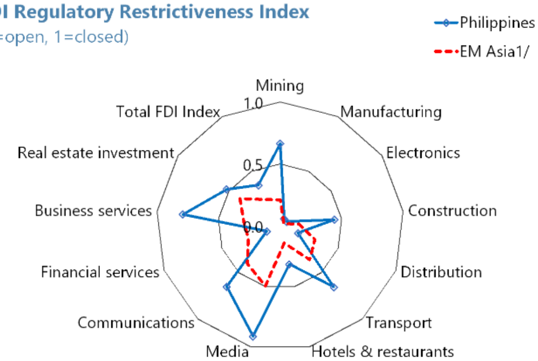
**Global Competitiveness Index: Quality of Infrastructure**
(1=worst, 7=best)




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

*Regulatory barriers remain high for inward FDI…*

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




Sources: OECD, FDI Regulatory Restrictiveness Index, 2020; and IMF staff estimates.
1/ Average of India, Indonesia, Malaysia, Thailand, and Vietnam.

*…and international trade.*

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


Sources: OECD, Trade Facilitation Indicators, 2020; and IMF staff estimates.

## Table 1. Philippines: Selected Economic Indicators, 2019–24

Demographic: Population (2021): 110.2 million; Life expectancy at birth (2020): 71.4
Poverty (percent of population, 2018): Below $1.90 a day: 2.7; Below the national poverty line: 16.7
Inequality (2018, income shares): Top 10 percent: 33.5; Bottom 20 percent: 6.2
IMF quota: SDR 2,042.9 million
Main products and exports: electronics, agricultural products, and business process outsourcing

| | 2019 | 2020 | 2021 | 2022 Proj. | 2023 Proj. | 2024 Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National account | | | | | | |
| Real GDP | 6.1 | -9.5 | 5.7 | 6.5 | 5.0 | 6.0 |
| Consumption | 6.3 | -5.3 | 4.7 | 7.4 | 6.5 | 6.5 |
| Private | 5.9 | -8.0 | 4.2 | 7.5 | 6.2 | 6.3 |
| Public | 9.1 | 10.5 | 7.1 | 6.7 | 7.8 | 7.5 |
| Gross fixed capital formation | 3.9 | -27.3 | 9.9 | 17.2 | 9.9 | 10.3 |
| Final domestic demand | 5.7 | -10.5 | 5.7 | 9.4 | 7.3 | 7.3 |
| Net exports (contribution to growth) | -0.2 | 4.0 | -2.4 | -4.6 | -3.2 | -2.5 |
| Real GDP per capita | 4.6 | -10.7 | 4.3 | 5.1 | 3.7 | 4.7 |
| Output gap (percent, +=above potential) | -0.1 | -8.5 | -3.2 | -0.1 | 0.0 | 0.0 |
| Labor market | | | | | | |
| Unemployment rate (percent of labor force) | 5.1 | 10.4 | 7.8 | 5.7 | 5.4 | 5.1 |
| Underemployment rate (percent of employed persons) | 13.8 | 16.2 | 15.9 | 14.3 | … | … |
| Employment | 1.9 | -6.1 | 11.7 | 4.9 | 2.4 | 1.6 |
| Price | | | | | | |
| Consumer prices (period average) | 2.4 | 2.4 | 3.9 | 5.3 | 4.3 | 3.1 |
| Consumer prices (end of period) | 2.4 | 3.3 | 3.1 | 5.8 | 3.7 | 3.0 |
| Core consumer prices (period average) | 3.4 | 3.4 | 3.0 | … | … | … |
| Residential real estate (Q4/Q4) | 10.4 | 0.8 | 4.9 | … | … | … |
| Money and credit (end of period) | | | | | | |
| 3-month PHIREF rate (in percent) 1/ | 3.1 | 1.3 | 1.5 | … | … | … |
| Claims on private sector (in percent of GDP) | 48.0 | 52.0 | 49.9 | 49.9 | 51.1 | 52.4 |
| Claims on private sector | 7.8 | -0.2 | 3.8 | 11.6 | 11.4 | 12.3 |
| Monetary base | -3.0 | 5.1 | 5.8 | 15.9 | 9.4 | 10.3 |
| Broad money | 9.8 | 8.7 | 8.0 | 11.0 | 9.9 | 9.7 |
| Public finances (in percent of GDP) | | | | | | |
| National government overall balance 2/ | -3.4 | -7.6 | -8.6 | -7.6 | -6.1 | -5.2 |
| Revenue and grants | 16.1 | 15.9 | 15.5 | 15.2 | 15.4 | 15.8 |
| Total expenditure and net lending | 19.5 | 23.5 | 24.1 | 22.8 | 21.6 | 20.9 |
| General government gross debt | 37.0 | 51.6 | 57.0 | 59.2 | 60.9 | 60.8 |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account balance | -0.8 | 3.2 | -1.5 | -5.0 | -4.1 | -3.6 |
| FDI, net | -1.4 | -0.9 | -2.5 | -2.0 | -2.0 | -2.0 |
| Total external debt | 22.2 | 27.2 | 27.0 | 26.6 | 26.4 | 25.8 |
| Gross reserves | | | | | | |
| Gross reserves (US$ billions) | 87.8 | 110.1 | 108.8 | 94.1 | 88.7 | 83.9 |
| Gross reserves (percent of short-term debt, remaining maturity) | 396.5 | 524.6 | 522.8 | 446.0 | 402.1 | 361.8 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 376.8 | 361.8 | 394.1 | 402.2 | 426.2 | 459.9 |
| Nominal GDP per capita (US$) | 3,512 | 3,326 | 3,576 | 3,602 | 3,769 | 4,015 |
| GDP (in billions of pesos) | 19,518 | 17,952 | 19,411 | 21,690 | 23,597 | 25,798 |
| Real effective exchange rate (2010=100) | 105.4 | 111.2 | 111.1 | … | … | … |
| Peso per U.S. dollar (period average) | 51.8 | 49.6 | 49.3 | … | … | … |

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

1/ Benchmark rate for the peso floating leg of a 3-month interest rate swap.

2/ 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, 2019–24

(In percent of GDP, unless otherwise indicated

| | 2019 | 2020 | 2021 | 2022 Proj. | 2023 Proj. | 2024 Proj. |
|---|---|---|---|---|---|---|
| Revenue and grants | 16.1 | 15.9 | 15.5 | 15.2 | 15.4 | 15.8 |
| Tax revenue | 14.5 | 14.0 | 14.1 | 14.5 | 14.7 | 14.9 |
| Net income and profits | 5.9 | 5.8 | 5.5 | 5.4 | 5.5 | 5.8 |
| Excises | 2.3 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 |
| VAT | 4.2 | 3.7 | 4.1 | 4.3 | 4.2 | 4.2 |
| Tariffs | 0.4 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 |
| Other 1/ | 1.7 | 1.7 | 1.8 | 1.8 | 1.9 | 1.8 |
| Nontax revenue | 1.6 | 2.0 | 1.4 | 0.8 | 0.7 | 0.8 |
| Expenditure and net lending | 19.5 | 23.5 | 24.1 | 22.8 | 21.6 | 20.9 |
| Current expenditures | 14.0 | 18.5 | 18.0 | 17.0 | 16.4 | 15.7 |
| Personnel services | 5.7 | 6.6 | 6.6 | 6.2 | 6.5 | 6.1 |
| Maintenance and operations | 2.9 | 4.9 | 4.5 | 3.8 | 3.5 | 3.3 |
| Allotments to LGUs | 2.4 | 3.5 | 3.5 | 3.8 | 3.1 | 3.1 |
| Subsidies | 1.0 | 1.3 | 1.0 | 0.8 | 0.7 | 0.7 |
| Tax expenditure | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 |
| Interest | 1.8 | 2.1 | 2.2 | 2.4 | 2.5 | 2.5 |
| Capital and equity expenditure | 5.3 | 4.9 | 6.0 | 5.7 | 5.0 | 5.1 |
| Capital expenditure | 5.3 | 4.8 | 5.8 | 5.7 | 5.0 | 5.1 |
| Equity | 0.0 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 |
| Net lending | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Balance | -3.4 | -7.6 | -8.6 | -7.6 | -6.1 | -5.2 |
| On the authorities' presentation 2/ | -3.4 | -7.6 | -8.6 | -7.6 | -6.1 | -5.2 |
| Financing | 3.4 | 7.6 | 8.6 | 7.6 | 6.1 | 5.2 |
| External financing (net) | 0.9 | 3.3 | 1.7 | 2.5 | 2.2 | 2.0 |
| Domestic financing (net) | 1.8 | 8.2 | 7.3 | 5.2 | 3.9 | 3.2 |
| Change in cash (negative=accumulation) | 0.6 | -3.9 | -0.4 | 0.0 | 0.0 | 0.0 |
| Privatization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Memorandum items: | | | | | | |
| Cyclically-adjusted primary balance 3/ | -1.5 | -3.7 | -5.7 | -5.2 | -3.7 | -2.7 |
| Structural primary balance 3/ | -1.5 | -3.6 | -5.6 | -5.3 | -3.8 | -2.8 |
| Gross financing requirement 4/ | 8.4 | 13.6 | 17.5 | 15.1 | 14.1 | 13.6 |
| National government gross debt 5/ | 39.6 | 54.6 | 60.4 | 62.7 | 64.4 | 64.3 |
| Domestic | 26.3 | 37.3 | 42.1 | 42.8 | 43.3 | 42.8 |
| External | 13.3 | 17.3 | 18.3 | 19.9 | 21.1 | 21.5 |
| GDP (in billions of peso) | 19,518 | 17,952 | 19,411 | 21,690 | 23,597 | 25,798 |

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, 2019–24 1/

(In percent of GDP, unless otherwise indicated)

| | 2019 | 2020 | 2021 | 2022 Proj. | 2023 Proj. | 2024 Proj. |
|---|---|---|---|---|---|---|
| Revenue | 20.3 | 20.4 | 21.0 | 20.8 | 21.0 | 21.3 |
| Taxes | 15.5 | 15.1 | 15.2 | 15.5 | 15.7 | 16.0 |
| Taxes on income, profits, and capital gains | 5.9 | 5.8 | 5.5 | 5.4 | 5.5 | 5.8 |
| Taxes on goods and services | 7.8 | 7.4 | 7.8 | 8.2 | 8.3 | 8.2 |
| Taxes on international trade and transactions | 0.4 | 0.4 | 0.3 | 0.4 | 0.3 | 0.3 |
| Taxes not elsewhere classified | 1.4 | 1.4 | 1.6 | 1.6 | 1.6 | 1.6 |
| Social contributions | 2.6 | 2.8 | 3.8 | 3.8 | 3.8 | 3.8 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenue | 2.2 | 2.6 | 2.1 | 1.5 | 1.4 | 1.5 |
| Total expenditure | 21.0 | 24.6 | 25.8 | 24.6 | 24.4 | 24.0 |
| Expense | 15.3 | 19.3 | 19.4 | 18.2 | 18.6 | 18.1 |
| Compensation of employees 2/ | 5.7 | 6.6 | 6.6 | 6.2 | 6.5 | 6.1 |
| Purchases/use of goods and services 2/ | 2.9 | 4.9 | 4.5 | 3.8 | 3.5 | 3.3 |
| Interest 2/ | 1.6 | 1.8 | 1.8 | 2.0 | 2.1 | 2.1 |
| Social benefits | 2.1 | 2.3 | 3.3 | 3.3 | 3.5 | 3.7 |
| Expense not elsewhere classified | 2.9 | 3.7 | 3.2 | 2.9 | 3.0 | 3.0 |
| Net acquisition of nonfinancial assets | 5.8 | 5.3 | 6.3 | 6.5 | 5.8 | 5.9 |
| Net lending/borrowing | -0.7 | -4.2 | -4.7 | -3.9 | -3.4 | -2.7 |
| Memorandum items: | | | | | | |
| Primary balance | 0.8 | -2.4 | -2.9 | -1.9 | -1.4 | -0.6 |
| General government gross debt 3/ | 37.0 | 51.6 | 57.0 | 59.2 | 60.9 | 60.8 |
| Domestic | 23.6 | 34.4 | 38.6 | 39.4 | 39.8 | 39.3 |
| Foreign | 13.3 | 17.3 | 18.3 | 19.9 | 21.1 | 21.5 |
| GDP (in billions of peso) | 19,518 | 17,952 | 19,411 | 21,690 | 23,597 | 25,798 |

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 items related to social security institutions and local governments 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, 2017–22 1/

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

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022:Q1 |
|---|---|---|---|---|---|---|
| Total | | | | | | |
| Net foreign assets | 4,403 | 4,461 | 4,858 | 6,096 | 6,493 | 6,580 |
| Net domestic assets | 8,083 | 9,149 | 10,092 | 10,149 | 11,048 | 10,940 |
| Net claims on nonfinancial public sector | 1,994 | 2,249 | 2,711 | 3,444 | 4,145 | 4,096 |
| Claims on private sector | 7,551 | 8,687 | 9,363 | 9,341 | 9,694 | 9,701 |
| Net claims on other financial corporations | 921 | 1,084 | 1,192 | 1,101 | 1,183 | 1,121 |
| Broad money | 12,486 | 13,610 | 14,950 | 16,244 | 17,541 | 17,520 |
| National currency | 10,636 | 11,643 | 12,976 | 14,222 | 15,343 | 15,267 |
| Foreign currency | 1,851 | 1,968 | 1,974 | 2,023 | 2,197 | 2,253 |
| Bangko Sentral ng Pilipinas | | | | | | |
| Net foreign assets | 4,004 | 4,089 | 4,399 | 5,303 | 5,574 | 5,583 |
| Net domestic assets | -864 | -746 | -1,157 | -1,901 | -1,976 | -2,295 |
| Claims on private sector | 0 | 0 | 0 | 0 | 0 | 0 |
| Net claims on financial corporations | -384 | -231 | -734 | -1,910 | -1,867 | -1,871 |
| Monetary base | 3,136 | 3,338 | 3,238 | 3,402 | 3,599 | 3,288 |
| Currency in circulation | 1,267 | 1,490 | 1,679 | 2,039 | 2,176 | 2,107 |
| Other depository corporations liabilities | 1,867 | 1,847 | 1,559 | 1,363 | 1,422 | 1,180 |
| Other liquid liabilities | 3 | 5 | 4 | 0 | … | … |
| Other depository corporations | | | | | | |
| Net foreign assets | 400 | 372 | 459 | 793 | 919 | 997 |
| Net domestic assets | 11,034 | 12,000 | 13,091 | 13,720 | 14,745 | 14,659 |
| Net claims on nonfinancial public sector | 1,935 | 2,034 | 2,478 | 2,698 | 3,424 | 3,762 |
| Claims on private sector | 7,551 | 8,687 | 9,363 | 9,341 | 9,694 | 9,701 |
| Net claims on financial corporations | 3,401 | 3,424 | 3,771 | 4,614 | 4,669 | 4,229 |
| Liquid liabilities | 11,434 | 12,373 | 13,550 | 14,131 | … | … |
| Memorandum items: | | | | | | |
| Broad money (percent change, year-on-year) | 11.3 | 9.0 | 9.8 | 8.7 | 8.0 | 8.3 |
| Claims on private sector (percent change, year-on-year) | 16.4 | 15.1 | 7.8 | -0.2 | 3.8 | 5.7 |
| Broad money (in percent of GDP) | 75.4 | 74.5 | 76.6 | 90.5 | 90.4 | 80.8 |
| Claims on private sector (in percent of GDP) | 45.6 | 47.6 | 48.0 | 52.0 | 49.9 | 44.7 |
| Nominal GDP | 16,557 | 18,265 | 19,518 | 17,952 | 19,411 | 4,929 |

Sources: Philippine authorities; 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, 2019–24

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

| | 2019 | 2020 | 2021 | 2022<br>Proj. | 2023<br>Proj. | 2024<br>Proj. |
|---|---|---|---|---|---|---|
| Current account balance | -3.0 | 11.6 | -6.0 | -20.2 | -17.5 | -16.8 |
| Trade balance of goods and services | -36.3 | -19.9 | -38.7 | -55.7 | -55.5 | -58.3 |
| Goods | -49.3 | -33.8 | -52.8 | -71.4 | -73.6 | -79.0 |
| Exports, f.o.b. | 53.5 | 48.2 | 54.2 | 56.3 | 57.5 | 62.1 |
| Imports, f.o.b. | 102.8 | 82.0 | 107.0 | 127.8 | 131.1 | 141.0 |
| Services | 13.0 | 13.9 | 14.1 | 15.7 | 18.1 | 20.7 |
| Receipts | 41.3 | 31.8 | 33.6 | 37.9 | 42.6 | 47.8 |
| Payments | 28.2 | 18.0 | 19.5 | 22.2 | 24.5 | 27.1 |
| Primary income, net | 5.3 | 4.1 | 3.2 | 5.1 | 5.7 | 6.6 |
| Receipts, of which: | 13.4 | 11.6 | 12.0 | 14.1 | 14.9 | 16.1 |
| Compensation of employees | 8.8 | 8.5 | 8.8 | 9.0 | 9.3 | 9.9 |
| Payments | 8.1 | 7.5 | 8.7 | 9.0 | 9.2 | 9.5 |
| Secondary income, net | 27.9 | 27.4 | 29.5 | 30.5 | 32.3 | 34.9 |
| Receipts, of which: | 28.7 | 28.2 | 30.4 | 31.5 | 33.4 | 36.0 |
| Workers' remittances | 25.6 | 25.6 | 27.0 | 28.0 | 29.6 | 32.0 |
| Payments | 0.8 | 0.9 | 1.0 | 1.0 | 1.1 | 1.1 |
| Capital account | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 |
| Financial account | -8.0 | -6.9 | -7.1 | -8.1 | -11.0 | -12.4 |
| Direct investment | -5.3 | -3.3 | -10.0 | -7.9 | -8.6 | -9.4 |
| Portfolio investment | -2.5 | -1.7 | 10.2 | 3.8 | -0.3 | -0.8 |
| Financial derivatives | -0.2 | -0.2 | -0.6 | -0.9 | -0.6 | -0.6 |
| Other investment | -0.1 | -1.8 | -6.7 | -3.0 | -1.5 | -1.5 |
| Errors and omissions | 2.7 | -2.5 | 0.2 | -0.8 | -0.8 | -0.8 |
| Overall balance | 7.8 | 16.0 | 1.3 | -12.9 | -7.3 | -5.1 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 377 | 362 | 394 | 402 | 426 | 460 |
| Current account (in percent of GDP) | -0.8 | 3.2 | -1.5 | -5.0 | -4.1 | -3.6 |
| Short-term debt (original maturity) | 17.2 | 14.2 | 15.1 | 15.4 | 16.3 | 17.5 |
| Short-term debt (residual maturity) | 22.2 | 21.0 | 20.8 | 21.1 | 22.1 | 23.2 |
| Gross reserves | 87.8 | 110.1 | 108.8 | 94.1 | 88.7 | 83.9 |
| External debt (US$ billions) | 83.6 | 98.5 | 106.4 | 107.1 | 112.4 | 118.7 |
| External debt (in percent of GDP) | 22.2 | 27.2 | 27.0 | 26.6 | 26.4 | 25.8 |

Sources: Philippine authorities; and IMF staff projections.

## Table 6. Philippines: Medium-Term Outlook, 2021–27

(In percent of GDP, unless otherwise indicated)

| | 2021 | 2022 Proj. | 2023 Proj. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. |
|---|---|---|---|---|---|---|---|
| GDP and prices | | | | | | | |
| Real GDP (percent change) | 5.7 | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 |
| CPI (percent change, annual average) | 3.9 | 5.3 | 4.3 | 3.1 | 3.0 | 3.0 | 3.0 |
| GDP by expenditure | | | | | | | |
| Consumption (percent change) | 4.7 | 7.4 | 6.5 | 6.5 | 6.3 | 5.9 | 5.6 |
| Private | 4.2 | 7.5 | 6.2 | 6.3 | 6.0 | 5.7 | 5.4 |
| Public | 7.1 | 6.7 | 7.8 | 7.5 | 7.3 | 7.0 | 6.5 |
| Gross fixed investment (percent change) | 9.9 | 17.2 | 9.9 | 10.3 | 10.3 | 10.4 | 10.5 |
| Net exports (contribution to growth) | -2.4 | -4.6 | -3.2 | -2.5 | -2.3 | -2.1 | -1.8 |
| Investment and saving | | | | | | | |
| Gross investment | 21.2 | 25.2 | 26.1 | 26.4 | 27.9 | 29.0 | 30.1 |
| Private | 15.5 | 19.6 | 21.0 | 21.2 | 22.7 | 23.9 | 25.1 |
| Public | 5.6 | 5.6 | 5.1 | 5.2 | 5.2 | 5.1 | 5.1 |
| National saving | 19.7 | 20.1 | 22.0 | 22.7 | 24.9 | 26.7 | 28.5 |
| Private | 18.3 | 18.0 | 19.9 | 19.9 | 21.3 | 22.5 | 23.8 |
| Public | 1.3 | 2.1 | 2.1 | 2.8 | 3.6 | 4.2 | 4.7 |
| Public finances | | | | | | | |
| National government balance | -8.6 | -7.6 | -6.1 | -5.2 | -4.4 | -3.7 | -3.2 |
| Total revenue | 15.5 | 15.2 | 15.4 | 15.8 | 16.2 | 16.5 | 16.7 |
| Total expenditure and net lending | 24.1 | 22.8 | 21.6 | 20.9 | 20.5 | 20.2 | 19.9 |
| National government gross debt | 60.4 | 62.7 | 64.4 | 64.3 | 63.6 | 62.3 | 60.4 |
| General government gross debt | 57.0 | 59.2 | 60.9 | 60.8 | 60.1 | 58.8 | 56.9 |
| Current account | -1.5 | -5.0 | -4.1 | -3.6 | -3.0 | -2.3 | -1.7 |
| Reserves (US$ billions) | 108.8 | 94.1 | 88.7 | 83.9 | 82.1 | 83.7 | 89.1 |
| Reserves/short-term liabilities 1/ | 522.8 | 446.0 | 402.1 | 361.8 | 337.1 | 327.2 | 332.0 |
| Total external debt | 27.0 | 26.6 | 26.4 | 25.8 | 25.3 | 24.7 | 24.0 |
| Monetary sector | | | | | | | |
| Claims on private sector 2/ | 49.9 | 49.9 | 51.1 | 52.4 | 53.9 | 55.1 | 55.9 |
| Claims on private sector (percent change) 2/ | 3.8 | 11.6 | 11.4 | 12.3 | 11.8 | 11.4 | 10.5 |

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, 2017–22

(In percent)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022:Q2 |
|---|---|---|---|---|---|---|
| Capital adequacy | | | | | | |
| Regulatory capital to risk-weighted assets | 14.4 | 14.9 | 15.2 | 16.3 | 16.5 | 16.0 |
| Regulatory Tier-1 capital to risk-weighted assets | 12.7 | 13.3 | 14.0 | 15.3 | 15.5 | 15.0 |
| Capital to total assets | 8.7 | 9.3 | 9.5 | 9.7 | 9.7 | 9.5 |
| Nonperforming loans net of provisions to capital | 3.1 | 3.6 | 4.9 | 6.6 | 7.7 | 5.8 |
| Net open position in foreign exchange to capital | 7.9 | 4.7 | 5.8 | 3.7 | 3.6 | 4.1 |
| Gross asset position in financial derivatives to capital | 1.6 | 1.8 | 1.3 | 1.6 | 1.5 | 3.5 |
| Gross liability position in financial derivatives to capital | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Asset quality | | | | | | |
| Nonperforming loans to total gross loans | 1.6 | 1.7 | 2.0 | 3.5 | 4.0 | 3.5 |
| Specific provisions to nonperforming loans | 66.9 | 63.2 | 58.0 | 65.9 | 64.0 | 70.0 |
| Earnings and profitability | | | | | | |
| Return on assets | 1.3 | 1.3 | 1.5 | 1.1 | 1.4 | 1.7 |
| Return on equity | 10.5 | 10.0 | 11.0 | 7.6 | 10.4 | 12.2 |
| Interest margin to gross income | 73.9 | 75.2 | 74.0 | 73.9 | 73.1 | 73.1 |
| Trading income to gross income | 4.3 | 3.2 | 7.8 | 12.1 | 4.4 | 2.7 |
| Noninterest expenses to gross income | 60.9 | 62.2 | 58.7 | 52.9 | 55.2 | 51.9 |
| Personnel expenses to noninterest expenses | 36.6 | 35.4 | 34.5 | 35.6 | 36.1 | 35.2 |
| Liquidity and funding | | | | | | |
| Liquid assets to total assets | 32.7 | 32.5 | 32.0 | 35.3 | 31.6 | 29.1 |
| Liquid assets to short-term liabilities | 51.8 | 50.7 | 48.8 | 53.5 | 47.7 | 44.4 |
| Non-interbank loans to customer deposits | 0.8 | 0.8 | 0.9 | 0.8 | 0.7 | 0.8 |
| Sensitivity to market risk | | | | | | |
| Foreign currency denominated loans to total loans | 11.1 | 10.9 | 10.7 | 10.6 | 11.0 | 10.8 |
| Foreign currency denominated liabilities to total liabilities | 20.3 | 20.2 | 19.7 | 17.6 | 17.3 | 19.0 |
| Real estate markets | | | | | | |
| Residential real estate loans to total loans | 7.2 | 7.1 | 7.3 | 8.0 | 8.2 | 8.2 |
| Commercial real estate loans to total loans | 14.1 | 12.3 | 13.2 | 14.0 | 14.3 | 14.1 |

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

## Table 8. Philippines: Indicators of External Vulnerability, 2018–23

(In percent of GDP, unless otherwise indicated)

| | 2018 | 2019 | 2020 | 2021 | 2022 Proj. | 2023 Proj. |
|---|---|---|---|---|---|---|
| External indicators (including external liquidity) | | | | | | |
| Gross international reserves (US$ billions, end of period) | 79.2 | 87.8 | 110.1 | 108.8 | 94.1 | 88.7 |
| Maturing short-term debt (US$ billions) | 16.1 | 17.2 | 14.2 | 15.1 | 15.4 | 16.3 |
| Amortization of medium and long-term debt (US$ billions) | 5.2 | 5.6 | 4.9 | 6.8 | 5.7 | 5.7 |
| Net FDI inflows (in BPM6, US$ billions) | -5.8 | -5.3 | -3.3 | -10.0 | -7.9 | -8.6 |
| FX deposits residents (US$ billions) | 40.2 | 41.5 | 45.6 | 46.9 | ... | ... |
| Total gross external debt | 22.8 | 22.2 | 27.2 | 27.0 | 26.6 | 26.4 |
| Fiscal indicators | | | | | | |
| National government overall balance | -3.1 | -3.4 | -7.6 | -8.6 | -7.6 | -6.1 |
| National government cyclically-adjusted primary balance | -1.3 | -1.5 | -3.7 | -5.7 | -5.2 | -3.7 |
| Net debt denominated in FX or linked to the exchange rate (in percent of total) | 33.1 | 32.9 | 31.6 | 30.9 | 32.8 | 34.1 |
| Short-term net general government debt (original maturity, in percent of total) | 6.8 | 6.4 | 9.7 | 6.8 | 7.0 | 7.7 |
| Amortization of total general government debt | 5.0 | 5.2 | 8.6 | 8.0 | 8.0 | 8.6 |

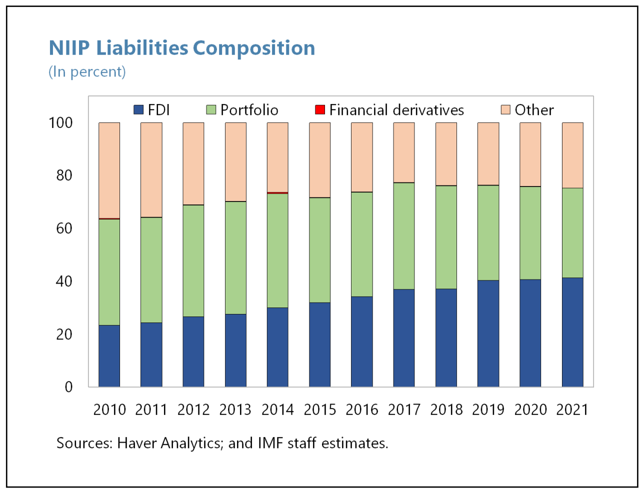
Sources: Philippine authorities; and IMF staff estimates.

# Appendix I. External Sector Assessment

*The Philippines' external position in 2021 was broadly in line with the level implied by fundamentals and desirable policies. External financing appears sustainable. The assessment is subject to considerable uncertainty around the war in Ukraine, and its implications for economic activity, trade, and capital flows.*

## Foreign Asset and Liability Position

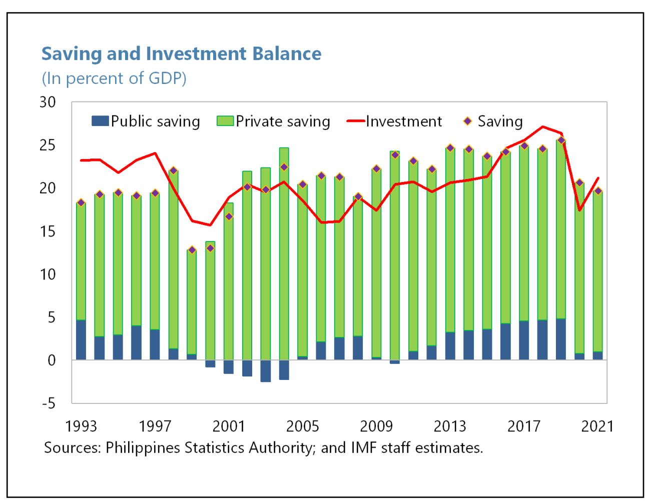
**1.** *Background*. The net international investment position (NIIP) widened to -7.1 percent of GDP in 2021 from -5.9 percent of GDP in 2020, reflecting the current account deficit and higher foreign direct investment (FDI). While the NIIP decreased in 2021, it is still above the 2016-2020 average of −10.4 percent of GDP partly due to the increase in reserve assets. Foreign reserves held by the BSP accounted for about 45 percent of total external assets. Key components of external liabilities included FDI (28 percent of GDP) and portfolio investment (23 percent of GDP). Total external debt remained constant at 27 percent of GDP in 2021, with public external debt decreasing slightly to 15 percent of GDP in 2021.




**2.** *Assessment*. The composition of the NIIP and the relatively low level of external debt indicate that the Philippines' external position is sustainable and entails relatively low vulnerabilities. FX reserves are substantially larger than short-term external liabilities (19.1 percent to FX reserves), and FDI accounts for a sizeable share of liabilities (41.3 percent of total liabilities).

## Current Account

**3.** *Background*. The CA swung to a deficit of 1.5 percent of GDP in 2021 from a surplus of 3.2 percent of GDP in 2020. The decline in the current account balance in 2021 reflects the strong rebound from the pandemic and the associated increase in imports relative to their exceptionally compressed levels in 2020, and higher global commodity prices. From a saving-investment (S-I) perspective, the current account deficit was driven by a consumption-led recovery, with public savings declining given the fiscal



response to the pandemic. The CA deficit is expected to widen to 5.0 percent of GDP this year, before narrowing in the medium term due to fiscal consolidation, continued recovery in the services sector including tourism and BPO (Business Process Outsourcing) industry, and higher remittances.

**4.** *Assessment:* The external position in 2021 was broadly in line with the level implied by medium-term fundamentals and desirable policies. The External Balance Assessment (EBA) model estimates a cyclically adjusted CA of −1.8 percent and a CA norm of -0.8 percent of GDP in 2021. Taking account of the effects of the COVID-19 shock, including its impact on travel and transportation sectors (0.7 percent of GDP), the CA gap is adjusted to -0.2 percent of GDP. Staff's estimated CA gap is significantly lower than in the previous year (2.2 percent of GDP), reflecting lower policy gaps—0.3 percent of GDP in 2021 versus 2.4 percent in 2020—mainly due to a more expansionary fiscal stance in 2021, in line with recommended policies.

**Philippines: Model Estimates for 2021**

(In percent of GDP)

| | CA Model | REER Level Model | REER Index Model |
|---|---|---|---|
| **CA Actual** | **-1.5** | | |
| Cyclical contributions (-) | 0.3 | | |
| **Adjusted CA** | **-1.8** | | |
| **CA Norm** (from model) | **-0.8** | | |
| **CA Gap** (from model) | **-0.9** | | |
| Policy Gap | 0.3 | | |
| **COVID-19 Adjustment** (+) /1 | **0.7** | | |
| **Staff Gap** | **-0.2** | | |
| **Elasticity** | **-0.28** | | |
| **REER Gap (percent)** | **1** | **19** | **9** |

Source: IMF staff estimates.

1/ Additional adjustment for travel, transport, household comsumption composition, medical goods are 0.1, 0.2, 0.1 and 0.3, respectively

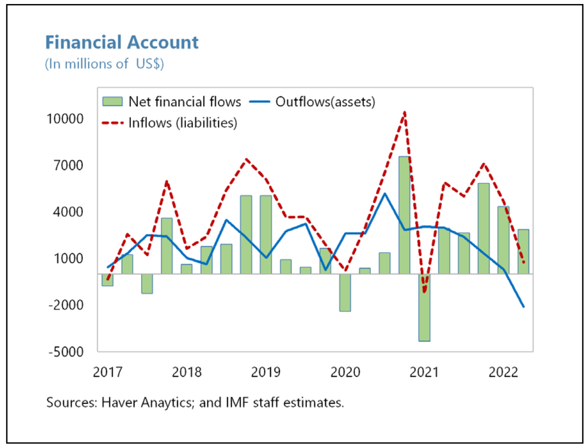
## Real Exchange Rate

**5.** *Background*. The peso appreciated by 0.4 percent in real effective terms and by 2.0 percent in nominal effective terms in 2021. The nominal depreciation was in line with the swing to deficit in the current account balance and capital outflows as global financial conditions tightened. The slight real appreciation reflected higher prices in the Philippines relative to trading partners.

**6.** *Assessment*. The real effective exchange rate (REER) in 2021 is assessed to be line with the level implied by fundamentals and desirable policies. The REER Level and Index models indicate a somewhat stronger level, but the estimate based on the CA deficit (with COVID-19 adjustors), implied a REER level that is broadly in line with fundamentals. The difference in the assessment is due to the inclusion of a COVID-19 adjustment in the CA model, which reduced the size of the current account gap.

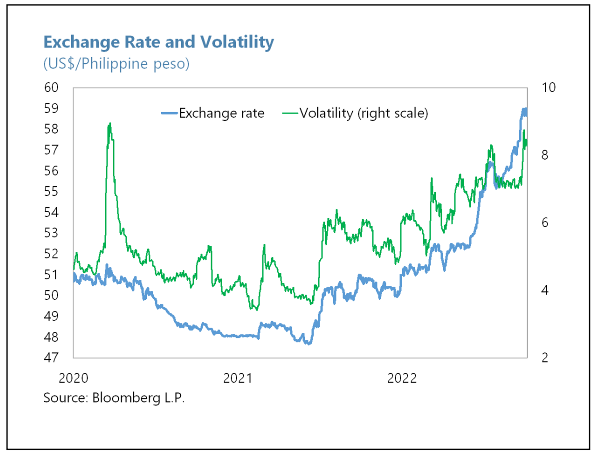
## Capital and Financial Accounts

**7.** *Background*. Net financial inflows declined slightly to 1.8 percent of GDP in 2021 but remained above the most recent 5-year average of 1.5 percent of GDP. The decline was due to net outflows of debt securities in foreign portfolio investment, despite net FDI inflows at a historic high level of 3.1 percent of GDP in 2021. Inflows of debt securities reversed to -0.4 percent of GDP in 2021 from 3.0 percent of GDP in 2020, as the general government and local corporates repaid debt obligations.




**8.** *Assessment*. As a small open economy, the Philippines is exposed to cross-border capital flow volatility. Changes in the expectations of domestic economic prospects and global risk appetite have outsize influence on capital flows.

## FX Intervention and Reserves Level




**9.** *Background*. The de facto exchange rate arrangement 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, but intervention data are not published and not available to staff. The BSP intervenes to smooth excess exchange rate volatility. The peso has been depreciating since June of 2021, reflecting a widening of the current account deficit and monetary policy normalization in major advanced economies. Gross international reserves (GIR) declined to US$108.8 billion (27.6 percent of GDP) at end-2021, which is slightly below the end-2020 level (US$110.1 billion) despite the new SDR allocation (US$2.78 billion) in August 2021.

**10.** *Assessment*. Reserves are adequate. Reserves as of end 2021 were about 8.7 months of imports of goods and services, or about 230 percent of the IMF's reserve adequacy metric.

# Appendix II. Risk Assessment Matrix[1]

| | Source of Risks | Likelihood | Expected Impact | Policy Recommendation |
|---|---|---|---|---|
| Global | **Intensifying spillovers from Russia's war on Ukraine.** Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit. | High | **Medium.** Philippines has little direct trade with Ukraine or Russia. However, further sanctions or disruptions resulting in higher commodity prices and tighter global financial conditions could adversely affect regional and trading partner growth, raising risks to Philippine's economic activity, inflation, trade, and capital flows. | Allow the exchange rate to act as a shock absorber while using foreign exchange intervention to counter disorderly market conditions. Stand ready to further tighten monetary policy if inflation expectations show signs of becoming de-anchored. Use available fiscal space effectively to provide targeted support if domestic demand weakens significantly. Ensure banking sector remains stable and markets remain liquid, while working to increase financial sector resilience. Provide targeted support to viable firms, while facilitating the exit of unviable ones. |
| | **Commodity price shocks.** A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability. | High | **Medium.** Increased pressure on CPI inflation may risk destabilizing inflation expectations and require a more aggressive monetary policy response. | Stand ready to further tighten monetary policy if inflation expectations show signs of becoming de-anchored and second round effects are increasing. Avoid subsidies and lowering taxes, instead provide targeted transfers to low- income households. |
| | **Abrupt global slowdown or recession**. Global and idiosyncratic risk factors combine to cause a synchronized growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices. **US**: The Fed tightens policies faster and by more than anticipated, resulting in a "hard landing". **Europe**: A gas shutoff by Russia results in acute gas shortages and triggers an EU recession. **China**: COVID-19 lockdowns, rising geopolitical tensions, a sharper-than-expected slowdown in the property sector, among others result in a sharp slowdown. **EMDEs**: Sharp tightening of global financial conditions, combined with volatile commodity prices leads to spiking risk premia, and debt and financial crises across EMDEs. | Medium | **High**. Lower GDP growth; larger economic scarring effects; a decline in capital inflows, leading to currency depreciation and tightening of domestic credit conditions. | Allow the exchange rate to act as a shock absorber while using foreign exchange intervention to counter disorderly market conditions. Use available fiscal space effectively to provide targeted support. Ensure banking sector remains stable and markets remain liquid, while working to increase financial sector resilience. Provide targeted support to viable firms, while facilitating the exit of unviable ones. |
| | **Local COVID-19 outbreaks.** Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs. | Medium | **Medium.** Larger economic scarring effects including from higher structural unemployment and persistent underinvestment; a decline in capital inflows, leading to currency depreciation; deterioration of bank assets; and a higher poverty rate | Fiscal stance should remain accommodative to provide support for the health sector, including vaccine and booster procurement and delivery; short-term income support for hard-hit households and sectors; and increased spending on social protection. Markets should be kept liquid. The exchange rate should remain flexible, and market driven. |
| | **Deepening geo-economic fragmentation and geopolitical tensions.** Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary system, and lower potential growth. | High | **Medium.** Larger economic scarring effects including from higher structural unemployment and persistent underinvestment; a decline in capital inflows, leading to currency depreciation; deterioration of bank assets; and higher poverty rate. | Accelerate trade integration efforts within the ASEAN region and pursue new, high-quality regional trade agreements. Implement structural reforms to reduce trade costs, promote competition and financial deepening. |
| Domestic | **Persistently high domestic inflation.** Inflation remains higher for longer, due to larger-than-expected second-round effects, more persistent commodity price shocks, de-anchoring inflation expectations which requires a sharp monetary policy tightening and leads to a "hard landing". | High | **High.** Persistently high inflation can reduce policy credibility and macroeconomic stability, lead to capital outflows, a higher risk premium and a significant economic slowdown reflecting tighter monetary policy, lower real household incomes and higher uncertainty. | Tighten monetary policy to bring about a sustained reduction in actual inflation and use monetary policy communication, to influence inflation expectations. Use available fiscal space effectively to provide targeted support to protect vulnerable households. Accelerate reforms to reduce supply constraints, reduce trade restrictions to support monetary policy, |
| | **Deterioration in banks' asset quality and funding positions.** As forbearance measures are unwound, a weaker recovery can reveal weaknesses in the banking system asset quality and lead to lower credit provisioning. | Medium | **Medium.** Credit slowdown can hamper the recovery, and the associated uncertainty can lead to capital outflows and currency depreciation. | Potential capital adequacy issues should be recognized upfront. Provide liquidity and allow banks to use regulatory buffers. Provide targeted support to viable firms. Accelerate reforms on bank resolution and crisis management and maintain high provisioning. |
| | **Natural disasters.** Major natural disasters (e.g., typhoons, volcano eruptions and/or earthquakes) disrupt economic activity and affect sentiment, resulting in higher fiscal expenditure. | High | **Medium–High**. Disruption in economic activity in the affected region; poor agriculture production; damage to properties; and higher food inflation, with larger impact on | Targeted assistance to affected groups and sectors. If the economy slows significantly, provide relief to banks in affected regions, while monitoring credit risk. Prioritize public investment in disaster-resistant infrastructure and sustainable growth |

[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" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" 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.

# Appendix III. Implementation of Main Recommendations of the 2021 Article IV Consultation

| Policies | 2021 Article IV Consultation Recommendations | Actions Since 2021 Article IV Consultation |
|---|---|---|
| **Fiscal Policy** | A medium-term fiscal strategy could serve to anchor the authorities' commitment to fiscal prudence and the gradual return to lower budget deficits. | A six-year medium-term fiscal strategy covering 2022-28 laid out by the current administration was approved by the House of Representatives and the Senate. The strategy seeks to attain short-term macro-fiscal stability while remaining supportive of economic recovery and to promote medium-term fiscal sustainability. |
| | The 60 percent indicative cap of the government on the public debt-to-GDP ratio should serve as a medium-term anchor that allows for policy flexibility in the near-term. | The 2022-28 medium term fiscal strategy aims to bring the public debt-to-GDP ratio to less than 60 percent by 2025 and further to about 51 percent by 2028, and to reduce the fiscal deficit to 3 percent of GDP by 2028. |
| | Inclusion of beneficial ownership of awarded companies in publications of COVID-19 spending would further enhance transparency and accountability. | Budget utilization reports of COVID-19 funds are available online, but beneficial ownership information is not included. |
| | Continued reforms in public investment management would help raise investment efficiency. | Build-Operate-Transfer (BOT) Law has been amended to enhance the governance of PPPs and improve spending discipline. Activities are ongoing to strengthen the management, accounting, and reporting of GOCCs with IMF technical assistance. |
| **Monetary Policy** | Direct budgetary financing should be phased out to preserve the BSP's operational capacity and independence. | BSP provisional advances to the Bureau of the Treasury were fully settled by the government as of end-May 2022. |
| | Communication about the sequencing of the COVID-19 exit strategy could enhance monetary policy effectiveness. | Monetary Policy Report of the BSP introduced in February 2022 includes forward guidance on policy rates. BSP started tightening monetary policy in May 2022 in response to inflationary pressures. |
| **Financial Sector Policies** | Further strengthen prudential regulation and supervision to promote health of the banking system. Regulatory forbearance should be phased out as scheduled. | Most of the regulatory relief measures implemented at the onset of the COVID-19 pandemic have expired as scheduled, including the temporary relaxation of requirements on compliance reporting, asset classification and provisioning, and prudential regulations on mark-to-market valuations. Other ongoing measures are noted in the staff report (paragraph 17 and Appendix V). |
| | Enhance effectiveness of the AML/CFT regime to support exit from the FATF list and reduce risks of disruption to cross-border financial flows. | The authorities continue to progress in completing their Action Plan to enhance AML/CFT effectiveness, including implementing supervision for targeted financial sanctions. They are also closely monitoring the impact of the FATF listing on the financial sector. |
| **Structural Policies** | Efforts to ease impediments to investment and reduce infrastructure gaps should be continued to help promote investment and new businesses. | Several pieces of legislation were adopted to enhance competitiveness and attract foreign investment, including amendments to the Retail Trade Liberalization Act in December 2021, the Foreign Investment Act in March 2022, and the Public Service Act in March 2022. The government approved in September 2022 revisions to the Implementing Rules and Regulations of the BOT Law to unlock the benefits of PPPs. |
| | The structural reform momentum should include steps to reduce poverty and inequality. | The incoming administration has declared its objective to reduce the poverty rate to single digit level by 2028. To achieve this, a comprehensive 8-point socioeconomic agenda will be implemented to respond to domestic and external risks. |

# Appendix IV. Public and External Debt Sustainability Analysis

*The Philippines' general government gross debt reached 57 percent of GDP as of end-2021 from 37 percent of GDP in 2019 mainly due to the impact of the pandemic on output and pandemic related spending. In the baseline, the debt-to-GDP ratio is projected to peak at about 61 percent in 2023–24 and then decline over the medium term with a reduction in budget deficits and growth recovery. The general government debt-to-GDP ratio is most vulnerable to a growth shock, followed by real interest rate and primary balance shocks. External debt stood at 27.0 percent of GDP as of end-2021 and is projected to decline to around 24.0 percent in the medium term. However, debt dynamics are sensitive to large peso depreciation and current account balance deterioration.*

## A. Background and Realism of Key Assumptions

**1. Baseline projections are predicated on fiscal consolidation and sustainable macroeconomic performance over the medium term**. After rebounding in 2021 with a real GDP growth of 5.7 percent, real GDP is projected to continue growing at 6.5 percent in 2022 and converge to 6.0-6.3 percent over the medium term. Due to elevated food and fuel prices, headline inflation will reach an average of 5.3 percent in 2022 and return close to the midpoint of the target band at 3.0 percent in 2024. The national government deficit will reach 7.6 percent of GDP in 2022 but decline to 3.2 percent of GDP in the medium term on the back of post pandemic fiscal consolidation and strong GDP growth. With the economic recovery, the current account balance shifted to a deficit of 1.5 percent in 2021 as growth in imports exceeded exports and is projected to widen to 5.0 percent in 2022. The CA deficit is expected to adjust gradually towards 1.7 percent of GDP over the medium term.

## B. Debt Sustainability

**2. Public debt in the Philippines will peak in 2023–24 before decreasing gradually in the baseline scenario (under current policies)**. Continued fiscal deficits in the near term are expected to increase the general government gross debt-to-GDP ratio from 57 percent of GDP in 2021 to a peak of about 61 percent in 2023. The subsequent decline would be led by a significant reduction in the primary budget deficit, which staff assess as achievable based on historical trends. The gross financing needs will accordingly increase to an average of about 10 percent of GDP in 2022−24; and fall below 9 percent of GDP in the medium term. The debt composition is projected to be broadly stable, with relatively low shares of 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 scenario, the debt path would fall slightly faster than in the baseline, reflecting the pre-pandemic prudent fiscal management and strong GDP growth. However, the constant primary balance scenario suggests the debt path would be higher than in the baseline, reflecting the higher-than-historical fiscal expansion in 2021 and the assumption of no further fiscal consolidation. A growth shock would temporarily increase the debt ratio to a peak of about 73 percent of GDP in 2024, while the interest rate and the exchange rate shocks would increase debt to slightly below 62 percent of GDP in 2024.

**4. External debt is also deemed sustainable**. The baseline external debt-to-GDP ratio is expected to fall to around 24.0 percent of GDP in 2027, from 27.0 percent in 2021. The historical scenario seems to be optimistic, but debt dynamics appear resilient to various shocks including interest rates, growth, and the current account. A one-time depreciation of 30 percent in 2022 would raise the debt ratio to about 38.9 percent of GDP in 2023 before slightly declining over the medium term.

## Figure 1. Philippines: Public Debt Sustainability Analysis—Baseline Scenario

(In percent of GDP, unless otherwise indicated)

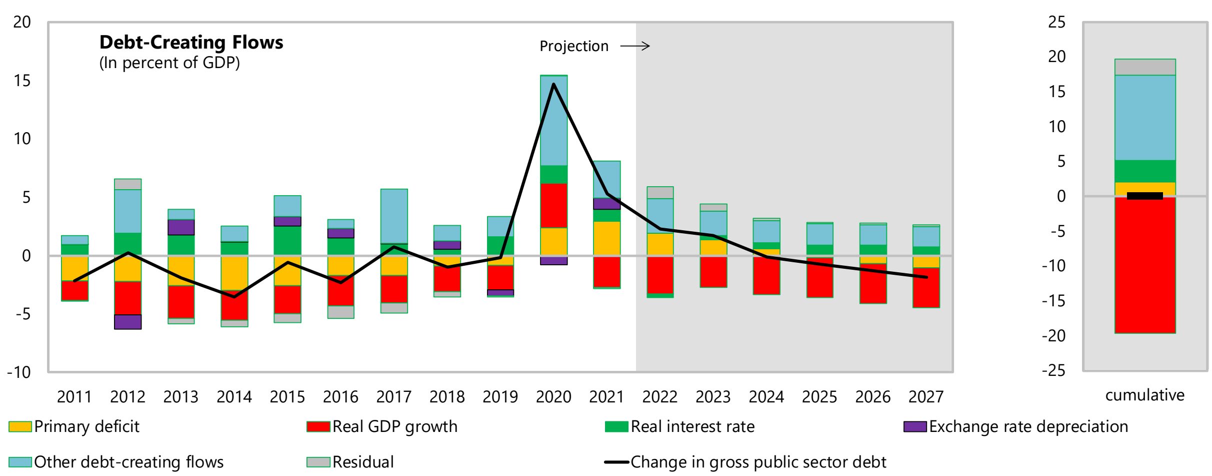
### Debt, Economic and Market Indicators [1]

| | Actual | | | Projections | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011-2019 [2] | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
| General government gross debt | 40.5 | 51.6 | 57.0 | 59.2 | 60.9 | 60.8 | 60.1 | 58.8 | 56.9 |
| General government gross financing needs | 5.6 | 9.8 | 10.4 | 10.5 | 10.3 | 9.5 | 9.0 | 8.7 | 8.2 |
| Real GDP growth (in percent) | 6.3 | -9.5 | 5.7 | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 |
| Inflation (GDP deflator, in percent) | 2.0 | 1.7 | 2.3 | 5.0 | 3.6 | 3.1 | 2.5 | 2.5 | 2.5 |
| Nominal GDP growth (in percent) | 8.5 | -8.0 | 8.1 | 11.7 | 8.8 | 9.3 | 8.8 | 8.9 | 9.0 |
| Effective interest rate (in percent) [4] | 5.2 | 4.5 | 3.8 | 4.7 | 4.7 | 4.3 | 4.2 | 4.2 | 4.0 |
| General government net debt [5] | 35.8 | 48.1 | 53.4 | 55.7 | 57.3 | 57.3 | 56.6 | 55.3 | 53.4 |

| As of July 06, 2022 | | |
|---|---|---|
| Sovereign Spreads | | |
| EMBIG (bp) 3/ | | 155 |
| 5Y CDS (bp) | | 133 |
| Ratings | Foreign | Local |
| Moody's | Baa2 | Baa2 |
| S&Ps | BBB+ | BBB+ |
| Fitch | BBB | BBB |

### Contribution to Changes in Public Debt

| | Actual | | | Projections | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2011-2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | cumulative | debt-stabilizing primary balance [10] |
| Change in general government gross debt | -1.2 | 14.7 | 5.3 | 2.3 | 1.7 | -0.1 | -0.7 | -1.3 | -1.8 | 0.0 | |
| Identified debt-creating flows | -0.8 | 14.6 | 5.4 | 1.3 | 1.1 | -0.3 | -0.9 | -1.5 | -2.0 | -2.3 | |
| Primary deficit | -2.0 | 2.4 | 2.9 | 1.9 | 1.4 | 0.6 | -0.2 | -0.7 | -1.0 | 2.0 | -0.9 |
| Primary (noninterest) revenue and grants | 18.5 | 20.4 | 21.0 | 20.8 | 21.0 | 21.3 | 21.9 | 22.4 | 22.9 | 130.2 | |
| Primary (noninterest) expenditure | 16.5 | 22.8 | 24.0 | 22.7 | 22.3 | 21.9 | 21.7 | 21.7 | 21.9 | 132.2 | |
| Automatic debt dynamics [6] | -0.7 | 4.5 | -0.7 | -3.6 | -2.4 | -2.8 | -2.5 | -2.6 | -2.7 | -16.6 | |
| Interest rate/growth differential [7] | -1.0 | 5.3 | -1.7 | -3.6 | -2.4 | -2.8 | -2.5 | -2.6 | -2.7 | -16.6 | |
| Of which: real interest rate | 1.4 | 1.5 | 1.1 | -0.3 | 0.4 | 0.5 | 0.9 | 0.9 | 0.8 | 3.1 | |
| Of which: real GDP growth | -2.4 | 3.8 | -2.7 | -3.3 | -2.7 | -3.4 | -3.4 | -3.4 | -3.4 | -19.7 | |
| Exchange rate depreciation [8] | 0.2 | -0.8 | 0.9 | … | … | … | … | … | … | … | |
| Other identified debt-creating flows | 1.9 | 7.7 | 3.2 | 3.0 | 2.1 | 1.9 | 1.8 | 1.8 | 1.7 | 12.3 | |
| Privatization proceeds (negative) | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| 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 | 1.8 | 7.7 | 3.2 | 3.0 | 2.1 | 1.9 | 1.8 | 1.8 | 1.7 | 12.3 | |
| Residual, including asset changes [9] | -0.4 | 0.1 | -0.1 | 1.0 | 0.6 | 0.2 | -0.1 | 0.1 | 0.1 | 2.1 | |




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 - π(1+g) - g + ae(1+r)]/(1+g+π+gπ)) times previous period debt ratio, with r = interest rate; π = 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 - π (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).

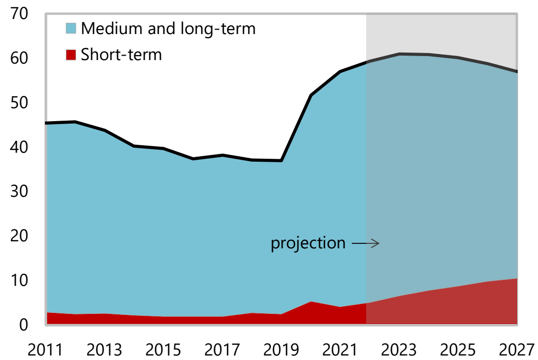
9/ Includes asset changes and interest revenues (if any). For projections, includes exchange rate changes during the projection period.

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.

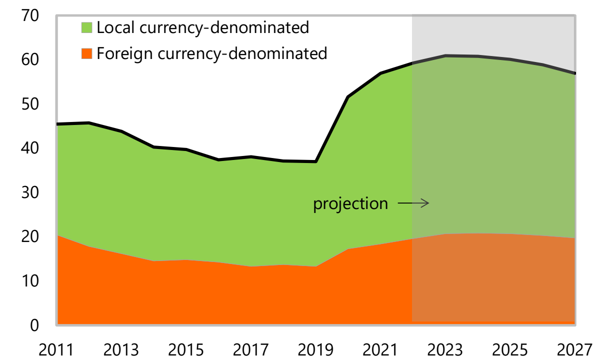
## Figure 2. Philippines: Public Debt Sustainability Analysis—Composition of General Government Gross Debt and Alternative Scenarios

### Composition of General Government Gross Debt

**By Maturity**
(in percent of GDP)



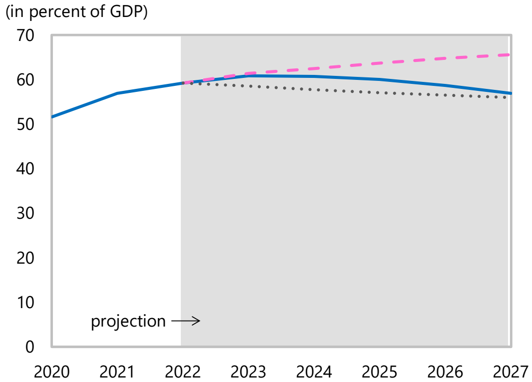

**By Currency**
(in percent of GDP)



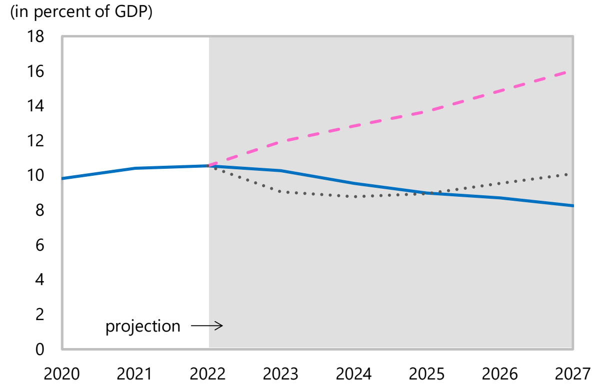

### Alternative Scenarios

Baseline   Historical   Constant Primary Balance

**General Government Gross Debt**
(in percent of GDP)




**General Government Gross Financing Needs**
(in percent of GDP)




### Underlying Assumptions
(in percent)

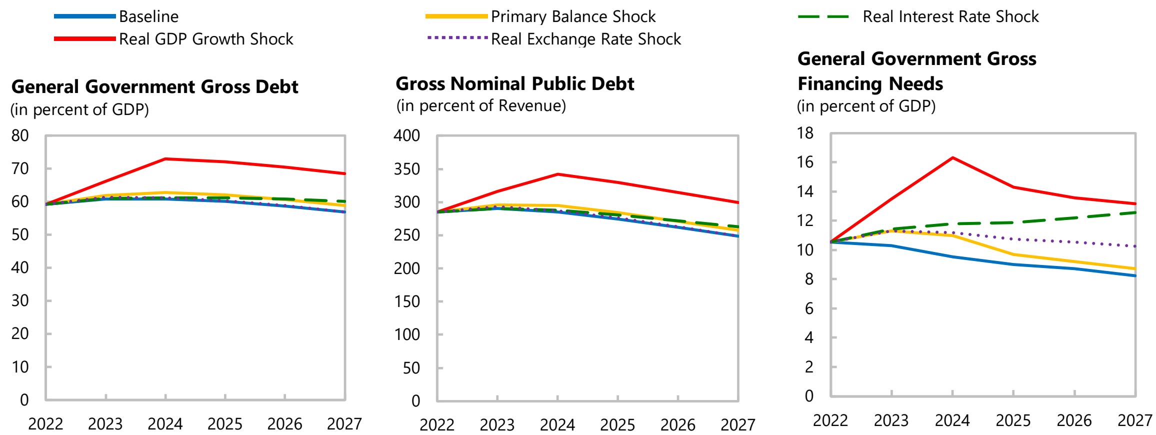
| Baseline Scenario | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 |
| Inflation | 5.0 | 3.6 | 3.1 | 2.5 | 2.5 | 2.5 |
| Primary Balance | -1.9 | -1.4 | -0.6 | 0.2 | 0.7 | 1.0 |
| Effective interest rate | 4.7 | 4.7 | 4.3 | 4.2 | 4.2 | 4.0 |
| **Constant Primary Balance Scenario** | | | | | | |
| Real GDP growth | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 |
| Inflation | 5.0 | 3.6 | 3.1 | 2.5 | 2.5 | 2.5 |
| Primary Balance | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 | -1.9 |
| Effective interest rate | 4.7 | 4.4 | 4.2 | 4.1 | 4.2 | 4.0 |

| Historical Scenario | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | 4.9 | 4.9 | 4.9 | 4.9 | 4.9 |
| Inflation | 5.0 | 3.6 | 3.1 | 2.5 | 2.5 | 2.5 |
| Primary Balance | -1.9 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Effective interest rate | 4.7 | 4.4 | 4.5 | 4.5 | 4.7 | 4.6 |

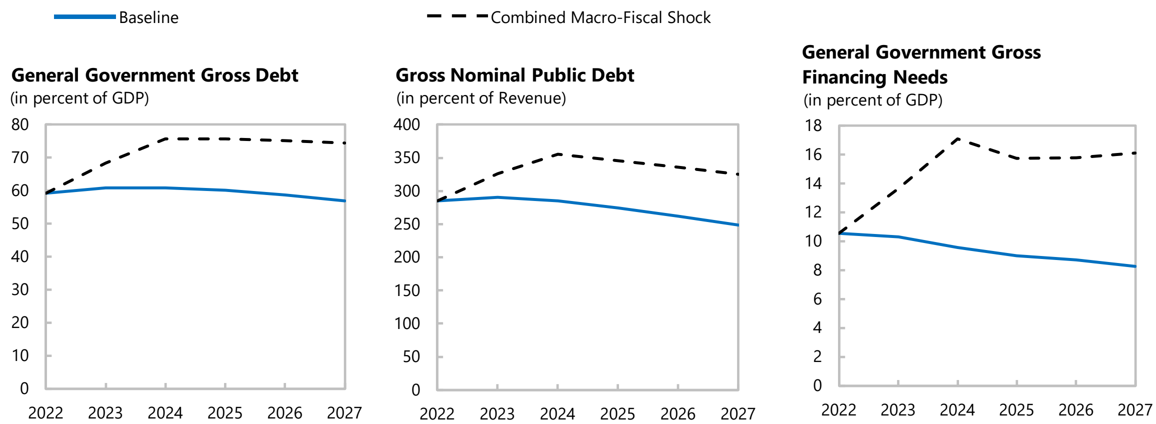
Source: IMF staff.

## Figure 3. Philippines: Public Debt Sustainability Analysis—Stress Tests

### Macro-Fiscal Stress Tests




### Additional Stress Tests




### Underlying Assumptions

(in percent)

| **Primary Balance Shock** | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 |
| Inflation | 5.0 | 3.6 | 3.1 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.9 | -2.4 | -1.6 | 0.2 | 0.7 | 1.0 |
| Effective interest rate | 4.7 | 4.4 | 4.3 | 4.3 | 4.3 | 4.1 |
| **Real Interest Rate Shock** | | | | | | |
| Real GDP growth | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 |
| Inflation | 5.0 | 3.6 | 3.1 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.9 | -1.4 | -0.6 | 0.2 | 0.7 | 1.0 |
| Effective interest rate | 4.7 | 4.4 | 5.1 | 5.5 | 5.9 | 6.1 |
| **Combined Shock** | | | | | | |
| Real GDP growth | 6.5 | -0.1 | 0.9 | 6.1 | 6.2 | 6.3 |
| Inflation | 5.0 | 2.3 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.9 | -2.8 | -3.5 | 0.2 | 0.7 | 1.0 |
| Effective interest rate | 4.7 | 4.5 | 5.1 | 5.6 | 6.1 | 6.2 |

| **Real GDP Growth Shock** | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 |
|---|---|---|---|---|---|---|
| Real GDP growth | 6.5 | -0.1 | 0.9 | 6.1 | 6.2 | 6.3 |
| Inflation | 5.0 | 2.3 | 1.9 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.9 | -2.8 | -3.5 | 0.2 | 0.7 | 1.0 |
| Effective interest rate | 4.7 | 4.4 | 4.3 | 4.3 | 4.3 | 4.1 |
| **Real Exchange Rate Shock** | | | | | | |
| Real GDP growth | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 |
| Inflation | 5.0 | 6.2 | 3.1 | 2.5 | 2.5 | 2.5 |
| Primary balance | -1.9 | -1.4 | -0.6 | 0.2 | 0.7 | 1.0 |
| Effective interest rate | 4.7 | 4.5 | 4.1 | 4.1 | 4.1 | 3.9 |

Source: IMF staff.

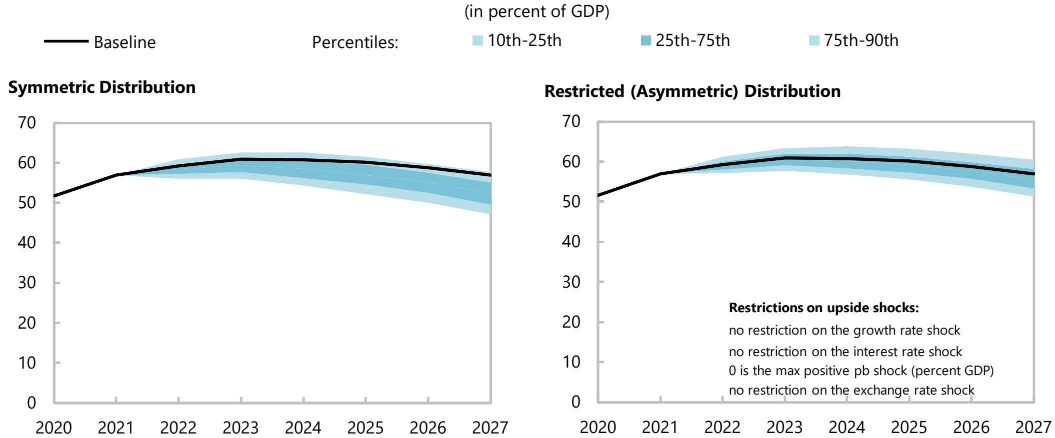
## Figure 4. Philippines: Public Debt Sustainability Analysis—Risk Assessment

### Heat Map

| | | | | | |
|---|---|---|---|---|---|
| Debt level [1/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability shock |
| Gross financing needs [2/] | Real GDP Growth Shock | Primary Balance Shock | Real Interest Rate Shock | Exchange Rate Shock | Contingent Liability Shock |
| Debt profile [3/] | Market Perception | External Financing Requirements | Change in the Share of Short-Term Debt | Public Debt Held by Non-Residents | Foreign Currency Debt |

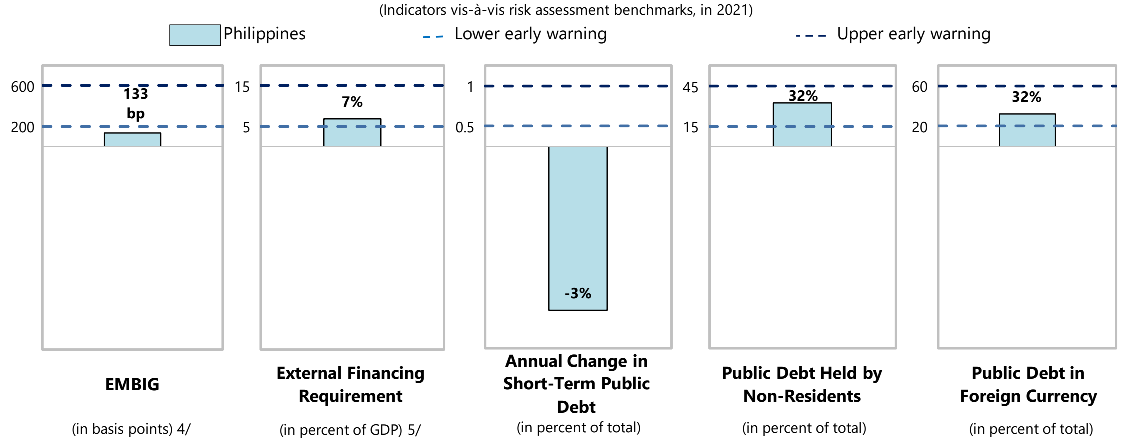
### Evolution of Predictive Densities of Gross Nominal Public Debt

(in percent of GDP)




### Debt Profile Vulnerabilities

(Indicators vis-à-vis risk assessment benchmarks, in 2021)




Source: IMF staff.

1/ The cell is highlighted in green if debt burden benchmark of 70% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

2/ The cell is highlighted in green if gross financing needs benchmark of 15% is not exceeded under the specific shock or baseline, yellow if exceeded under specific shock but not baseline, red if benchmark is exceeded under baseline, white if stress test is not relevant.

3/ The cell is highlighted in green if country value is less than the lower risk-assessment benchmark, red if country value exceeds the upper risk-assessment benchmark, yellow if country value is between the lower and upper risk-assessment benchmarks. If data are unavailable or indicator is not relevant, cell is white.
Lower and upper risk-assessment benchmarks are:

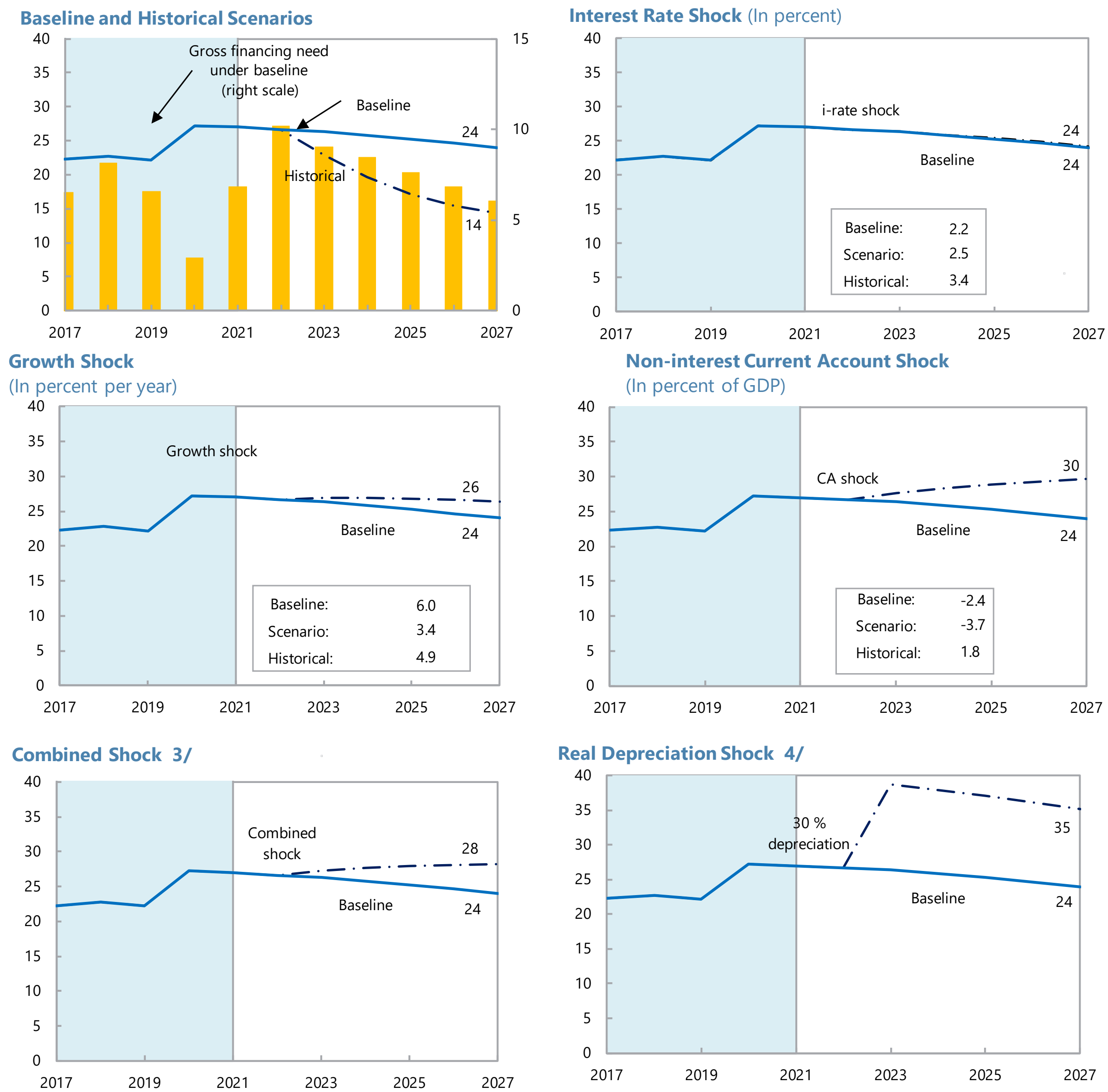
200 and 600 basis points for bond spreads; 5 and 15 percent of GDP for external financing requirement; 0.5 and 1 percent for change in the share of short-term debt; 15 and 45 percent for the public debt held by non-residents; and 20 and 60 percent for the share of foreign-currency denominated debt.

4/ EMBIG, an average over the last 3 months, 07-Apr-22 through 06-Jul-22.

5/ External financing requirement is defined as the sum of current account deficit, amortization of medium and long-term total external debt, and short-term total external debt at the end of previous period.

## Figure 5. 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 2021.

## Table 1. Philippines: External Debt Sustainability Framework, 2017–2027

(In percent of GDP, unless otherwise indicated)

| | Actual | | | | | | | Projections | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | | | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Debt-stabilizing non-interest current account 6/ |
| 1 Baseline: External debt | 22.3 | 22.8 | 22.2 | 27.2 | 27.0 | | | 26.6 | 26.4 | 25.8 | 25.3 | 24.7 | 24.0 | -3.7 |
| 2 Change in external debt | -1.2 | 0.5 | -0.6 | 5.0 | -0.2 | | | -0.4 | -0.3 | -0.6 | -0.6 | -0.6 | -0.7 | |
| 3 Identified external debt-creating flows (4+8+9) | -2.3 | 0.0 | -2.9 | -2.5 | -3.0 | | | 1.4 | 0.4 | -0.2 | -0.9 | -1.5 | -2.2 | |
| 4 Current account deficit, excluding interest payments | -0.1 | 1.7 | 0.0 | -3.9 | 1.0 | | | 4.4 | 3.6 | 3.1 | 2.5 | 1.8 | 1.2 | |
| 5 Deficit in balance of goods and services | 9.6 | 11.3 | 9.6 | 5.5 | 9.8 | | | 13.9 | 13.0 | 12.7 | 12.2 | 11.6 | 11.1 | |
| 6 Exports | 26.4 | 26.1 | 25.1 | 22.1 | 22.3 | | | 23.4 | 23.5 | 23.9 | 24.2 | 24.4 | 24.6 | |
| 7 Imports | 36.0 | 37.4 | 34.8 | 27.6 | 32.1 | | | 37.3 | 36.5 | 36.6 | 36.4 | 36.0 | 35.7 | |
| 8 Net non-debt creating capital inflows (negative) | -2.3 | -1.4 | -1.9 | -0.2 | -2.3 | | | -1.9 | -2.4 | -2.4 | -2.4 | -2.4 | -2.4 | |
| 9 Automatic debt dynamics 1/ | 0.1 | -0.3 | -1.0 | 1.6 | -1.7 | | | -1.1 | -0.7 | -0.9 | -0.9 | -0.9 | -1.0 | |
| 10 Contribution from nominal interest rate | 0.8 | 0.8 | 0.8 | 0.7 | 0.5 | | | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | |
| 11 Contribution from real GDP growth | -1.6 | -1.3 | -1.3 | 2.2 | -1.4 | | | -1.7 | -1.3 | -1.5 | -1.5 | -1.5 | -1.4 | |
| 12 Contribution from price and exchange rate changes 2/ | 0.9 | 0.2 | -0.5 | -1.3 | -0.8 | | | ... | ... | ... | ... | ... | ... | |
| 13 Residual, incl. change in gross foreign assets (2-3) 3/ | 1.1 | 0.5 | 2.3 | 7.5 | 2.8 | | | -1.8 | -0.7 | -0.4 | 0.3 | 0.9 | 1.5 | |
| External debt-to-exports ratio (in percent) | 84.4 | 87.4 | 88.3 | 123.1 | 121.2 | | | 113.6 | 112.2 | 108.0 | 104.4 | 101.0 | 97.6 | |
| Gross external financing need (in billions of US dollars) 4/ | 21.4 | 28.3 | 24.7 | 10.6 | 27.0 | | | 41.0 | 38.6 | 38.8 | 38.0 | 36.8 | 35.2 | |
| in percent of GDP | 6.5 | 8.2 | 6.6 | 2.9 | 6.9 | | | 10.2 | 9.1 | 8.4 | 7.7 | 6.9 | 6.1 | |
| Scenario with key variables at their historical averages 5/ | | | | | | 10-Year Historical Average | 10-Year Standard Deviation | 26.6 | 22.8 | 19.6 | 17.1 | 15.4 | 14.4 | -1.3 |
| Key Macroeconomic Assumptions Underlying Baseline | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 6.9 | 6.3 | 6.1 | -9.5 | 5.7 | 4.9 | 5.1 | 6.5 | 5.0 | 6.0 | 6.1 | 6.2 | 6.3 | |
| GDP deflator in U.S. dollars (change in percent) | -3.6 | -0.7 | 2.4 | 6.1 | 3.1 | 0.6 | 3.4 | -4.1 | 0.9 | 1.8 | 1.7 | 1.7 | 1.7 | |
| Nominal external interest rate (in percent) | 3.4 | 4.0 | 3.9 | 3.1 | 2.2 | 3.4 | 0.5 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | |
| Growth of exports (U.S. dollar terms, in percent) | 17.2 | 4.3 | 4.8 | -15.5 | 9.7 | 4.8 | 9.8 | 7.3 | 6.3 | 9.7 | 9.3 | 9.0 | 9.1 | |
| Growth of imports (U.S. dollar terms, in percent) | 15.3 | 9.8 | 1.0 | -23.7 | 26.6 | 6.8 | 13.5 | 18.6 | 3.8 | 8.0 | 7.5 | 7.0 | 7.1 | |
| Current account balance, excluding interest payments | 0.1 | -1.7 | 0.0 | 3.9 | -1.0 | 1.8 | 2.5 | -4.4 | -3.6 | -3.1 | -2.5 | -1.8 | -1.2 | |
| Net non-debt creating capital inflows | 2.3 | 1.4 | 1.9 | 0.2 | 2.3 | 1.0 | 1.0 | 1.9 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | |

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 V. Implementation of FSAP Recommendations[1]

**Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations**

| Recommendation | Timing |
|---|---|
| ***Macroprudential Policy and Systemic Risk Monitoring Framework*** | |
| Limit bank dividend distributions while downside risks remain high and be ready to take additional measures to strengthen banks' capital if the risks materialize to continue providing credit to the economy (FSCC members, BSP). | ST |
| ***Update****:* As noted in the Buff Statement of the Financial System Stability Assessment (FSSA) report, the BSP may limit or prohibit dividend declaration as provided in the law and the regulations governing dividends, as necessary. Dividend prohibition is handled on a case-by-case basis considering a bank's varied internal capital targets, stress testing results, and risk profile, among other factors. Banks applying for relief measures may be restricted from making dividend or other forms of profit distributions. This restriction automatically applies to banks that utilize their capital conservation buffers and may be imposed on banks that have reached their internal capital targets. | |
| Enhance collaboration within the BSP to conduct essential macroprudential risk analyses, including macro scenario stress tests, and assure a balanced decision-making process (BSP). | MT |
| ***Update****:* As mentioned in the Buff Statement of the FSSA report, the BSP upholds strong collaboration and coordination so as to foster a balanced decision-making process in carrying out its price stability and financial stability mandates effectively, and to ensure effective supervision of financial institutions and management of systemic risks. There are board-level committees and mechanisms in place to ensure that interrelated issues and concerns are considered in the decision-making process. Financial stability and financial supervision implications are considered and discussed during the meetings of the Advisory Committee to the Monetary Board (MB). Meanwhile, financial supervision related matters with financial stability implications are discussed during preparatory board meetings attended by MB members and heads of relevant units in the BSP. Discussions from these committees form the basis for appropriate policy decisions and implementation, that provide a balance between macroeconomic and financial stability objectives. | |
| Strengthen the influence of FSCC decisions by adding a comply-or-explain mechanism and providing sectoral regulators with a financial stability objective (FSCC members). | MT |
| ***Update****:* President Duterte signed Executive Order (EO) No. 144 on July 6, 2021 which institutionalizes the FSCC. The EO provides the Council with the necessary power to issue directives and regulations. The EO can then be the start of any consideration for comply-or-explain mechanism. | |
| Expand macroprudential policy toolkit and establish operational procedures to set them in a more systemic risk-based manner (BSP). | MT |
| ***Update****:* The Macroprudential Policy Strategy Framework, which was approved by the Financial Stability Coordination Council (FSCC) in July 2020, outlines the strategic and tactical elements for executing macroprudential policy in the country. The Framework likewise provides a useful basis for market surveillance and analysis of systemic risks. The authorities are also working to extend and update the toolkit to better respond to changing market conditions. | |
| ***Financial Sector Supervision*** | |
| Lapse or limit the use of issued regulatory forbearance measures (BSP). | ST |
| ***Update****:* Most of the regulatory relief measures implemented at the onset of the COVID-19 pandemic have expired or are set to expire as scheduled. The BSP's regulatory forbearance measure which allowed banks to exclude from the past due and non-performing loan classification the loans of borrowers affected by the COVID-19 pandemic and were granted financial relief expired on December 31, 2021. The expiry of said relief measure was timed to coincide with the full operationalization of the Financial Institutions Strategic Transfer Act (FIST Act) to bridge and smoothen transition between the crisis oriented temporary relief measures under the BSP's COVID-19 relief package and the long-term permanent resolution mechanism afforded under the FIST Act | |

[1] The updates presented in this appendix on FSAP recommendations reflect the authorities' updates and do not constitute staff's assessment of actions taken by the authorities.

**Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations (Continued)**

Banks were allowed to stagger booking of allowance for credit losses for all types of credits extended to individuals and businesses directly affected by COVID-19 as of March 8, 2020, for a maximum period of five (5) years, subject to BSP approval. Period of availment of this relief measure lapsed on March 8, 2021.

The BSP issued the twin relief measures below. The following regulatory relief measures are aligned with the Basel standards and practices in other jurisdictions:

1. Regulatory Treatment of Restructured Loans for Measuring Expected Credit Losses (ECL) issued under Memorandum No. M- 2021-056 dated October 21, 2021. This regulatory measure is effective until December 31, 2022 and is subject to reporting requirements.
2. Capital Relief on the Treatment of Provisioning Requirements under the Philippine Financial Reporting Standard (PFRS) 9 issued under Memorandum No. M-2021-055 dated October 19, 2021. This measure aims to lessen the impact of provisioning requirements for loans classified under Stage 1 or tagged as "performing" and Stage 2 or "under-performing" on bank's capital. It allows BSFIs to add-back increases in Stage 1 and Stage 2 provisioning requirements booked under allowance for credit losses from end-December 2019 to Common Equity Tier 1 (CET1) capital over a period of two (2) years starting January 1, 2022, subject to a declining add-back factor of 100 percent in 2022, and 50 percent in 2023.

Meanwhile, the BSP has started to scale back the temporary relief measures during the COVID-19 crisis save for those that incentivize lending to micro, small and medium enterprises (MSMEs). The relief measures that were extended until end-June 2023 include the reduced credit risk weight of loans granted to MSMEs as alternative compliance with the reserve requirements. The extension of these relief measures will encourage banks to support financing requirements of creditworthy MSMEs as these enterprises recover from the COVID-19 crisis period and cope with the ongoing policy normalization.

Other measures scheduled to expire end-2022 pertain to:

- Increase in Single Borrower's Limit (SBL). The SBL was temporarily increased to 30 percent from 25 percent.
- Relief from sanctions for breaches in SBL by branches of foreign banks.
- The Minimum Liquidity Ratio (MLR) of Thrift Banks and Rural and Cooperative Banks. The MLR was reduced from 20 percent to 16 percent until end-December 2022 unless otherwise revoked by the BSP.
- Relaxation of maximum borrowing limit of pawnshops.

The BSP's MB approved the setting of interest or finance charge on all credit card transactions not to exceed an annual interest rate of 24 percent. This became effective starting November 3, 2020, subject to review every six (6) months.[1]

| | |
|---|---|
| Enhance regulatory powers and standards regarding transfer of significant ownership or controlling interest and to assess the suitability of beneficial owners of banks (BSP, DoF). | ST |

***Update on transfer of significant ownership***: The BSP is currently finalizing the draft policy proposal on the Amendments to the Guidelines Governing the Transfer of Significant Ownership in Banks and Quasi-Banks (QBs) which seeks to operationalize the statutory provisions of Section 25-A of Republic Act (R.A.) No. 7653 or the New Central Bank Act (NCBA), as amended by R.A. No. 11211, covering the requirement for prior BSPs approval of transfers or acquisitions, or a series thereof, of at least ten percent (10%) of the total voting shares in a bank/QB. The proposed policy amendments likewise seek to align the existing regulations with Section 25-A of the amended BSP Charter on the transfer of actual control or management of the bank/QB. In addition, the draft policy proposal likewise aims to: (1) introduce fit and proper requirements for individual and corporate stockholders and their beneficial owners and (2) establish the reporting of adverse information affecting the continued fitness and propriety of substantial stockholders and controlling interests.

***Update on suitability of beneficial owners***: Amendments to Appendix 33 of the Manual of Regulations for Banks (MORB) as per Circular No. 1105 dated December 2, 2020 (Guidelines on the Establishment of Digital Banks) provide the inclusion of ultimate beneficial owners (UBOs) as among those who will need to provide documentary requirements for the BSP to better assess the ownership and control structure. For purposes of this Section, a UBO shall refer to beneficial owner as defined under Item "m" of Sec. 904 of the MORB126.

[1] In the meetings dated March 31, 2021, November 11, 2021 and May 19, 2022, the MB approved the retention of the said ceiling for another 6 months (Primer on BSP's COVID-19 response toolkit).

| Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations (Continued) | |
|---|---|
| This amendment seeks to address the observations on the BSP compliance with (1) the Financial Action Task Force (FATF) Recommendation No. 26 on Regulation and Supervision of Financial Institutions urging competent authorities/ financial supervisors to take the necessary legal or regulatory measures to prevent criminals or their associates from holding, or being the beneficial owner of, a significant or controlling interest, or holding a management function in, a financial institution. | |
| Strengthen sectoral supervision, appoint the BSP as the lead supervisor of financial conglomerates and conduct more frequent and comprehensive risk-assessment of FCs (BSP, IC, SEC, FSF). | ST |
| ***Update**:* The Financial Sector Forum (FSF), established the Supervisory College to carry out effectively the financial conglomerate supervision. The College Supervisors are the lead supervisors from two financial sector authorities who will jointly head the Supervisory College. The lead supervisor is determined based on the dominant supervised entities within the conglomerate. The BSP is usually the appointed lead supervisor of the Supervisory College.<br>A holistic and comprehensive risk assessment of the financial conglomerate subject of a College is done periodically.<br>The pilot Supervisory College was concluded in August 2022. Post College, the offsite financial surveillance is continuing. The 2nd Supervisory College started in October 2022 and is expected to be completed by January 2023. | |
| Update the large exposure requirements (to be applicable on a solo and consolidated level) and enhance large and related party exposure reporting requirements (BSP). | ST |
| ***Update**:* The BSP recently issued Circular 1150 dated August 23, 2022 or the Prudential Framework for Large Exposures Monitoring Threshold which provides guidance for universal/commercial (U/KB) banks and its subsidiary bank's/quasi-bank's (QB) to comply with the large exposure monitoring threshold of 25% of Tier 1 capital, on solo and consolidated basis. This threshold is implemented to protect covered banks/QBs solvency from maximum possible losses in case of sudden failure of a counterparty or group of connected counterparties and to facilitate monitoring by the BSP of concentration risks in the financial system.<br><br>Moreover, the said Circular requires banks to submit semestral reports on large exposures to facilitate monitoring by the BSP. Covered banks/QBs are also expected to include the impact of material concentration risk from large exposures into their stress testing exercise for purposes of enhancing risk management system and assessing capital adequacy pursuant to Guidelines on Internal Capital Adequacy Assessment Process (ICAAP) under Appendix 94 of the Manual of Regulations for Banks (MORB)/Q-54 of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI). | |
| Amend the bank secrecy laws to enhance supervision powers, strengthen AML/CFT effectiveness, and cooperation with foreign authorities (BSP, SEC, IC, AMLC and DoF). | MT |
| ***Update**:* Section 24 of the Anti-Money Laundering Act, as amended, has expressly repealed the existing bank deposit secrecy laws (i.e., Republic Act Nos. 1405 and 6426) by providing the AMLC with unimpeded access to bank account information. Hence, these bank deposit secrecy laws do not impede the implementation of the AML/CFT framework. Nonetheless, *r*elevant Philippine government agencies strongly support any initiative and bills seeking to amend the bank secrecy laws to include among the exemptions to the law the inquiry or examination by the Bangko Sentral ng Pilipinas (BSP) in the exercise of its supervisory powers in cases involving fraud, serious irregularity, or unlawful activity. | |
| Provide the power to the BSP to insert a regulated Financial Holding Company into a mixed conglomerate and obtain information from the wider group (BSP, DoF). | MT |
| ***Update***: This is not doable in the medium-term as this requires legislation. However, the BSP is conducting a study on the potential structure of a proposed financial conglomerate model. Letters were sent to the Lower House and the Senate in December 2020 informing them of the BSP recommendations requiring legislative amendments, which already include the expansion of the BSP's authority to insert a Financial Holding Company. | |
| ***AML/CFT*** | |
| Make legislative amendments to (i) designate tax crimes as predicate ML offenses and (ii) establish a comprehensive legal framework for targeted financial sanctions against proliferation financing (AMLC, DoF). | ST |
| ***Update**:* As reported in the IMF Country Report 21/74, the recent passage of Republic Act No. (RA) 11521 or An Act Further Strengthening the Anti-Money Laundering Law has already addressed the recommendations to (i) designate tax crimes as predicate money laundering offenses; and (ii) establish a comprehensive legal framework for targeted financial sanctions against proliferation financing. The related implementing rules and regulations, particularly on the implementation of the targeted financial sanctions, took effect on January 31, 2021. | |
| Strengthen risk-based AML/CFT supervision (including sanctioning procedures) for high-risk sectors, such as banks, casinos, money value transfer service providers (BSP, AMLC, PAGCOR). | ST |

| Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations (Continued) | |
|---|---|
| ***Update on the sanctioning framework of the AMLC**:* The AMLC, in its Resolution Nos. 12 and 69, series of 2018 and 2020, respectively, approved the implementation of the prioritization policies in the evaluation of reports and referrals from Supervising Authorities, other Law Enforcement Agencies and other entities. These policies are currently undergoing substance review to further strengthen escalation mechanism thereby allocating more of the AMLC's resources for the assessment of covered persons involved in identified priority compliance issues. In its Resolution No. 98, series of 2020, the AMLC approved the implementation of the Enforcement Action Guidelines (EAG), which is aimed at applying measures as may be necessary and justified to counteract money laundering/terrorism financing (ML/TF). | |
| ***Update on risk-based supervision of DNFBPs by AMLC**:*<br>The AMLC continues to strengthen its risk-based AML/CFT supervision framework. To ensure risk-based supervision over Designated Non-Financial Business and Professions (DNFBPs), the AMLC starts with the 2nd National Risk Assessment (NRA) in 2017 to establish risk understanding over supervised sectors. From the identification of national risk priorities, sectoral risk assessments/studies or reviews are also conducted to supplement and enhance risk understanding. The AMLC has so far conducted the following risk studies on a sectoral level on the DNFBP sector:<br>1. Real Estate Sector;<br>2. Understanding the Internet-Based Casino Sector in the Philippines;3. A Risk Assessment (jointly undertaken with the PAGCOR); and<br>3. 2021 Risk Review of AMLC Registered DNFBPs.<br>The AMLC also finalized its compliance and supervision manual in November 2021 which applies to the AMLC's supervision of casinos, OGOs and their service providers (OGO-SPs), and across all the other Designated Non-Financial business and Profession (DNFBP) sectors (for which the AMLC is the sole AML/CFT supervisor). | |
| ***Update on risk-based supervision of banks and money value transfer service providers (MVTS)**:* The BSP's risk-based AML/CFT supervisory framework is embedded in its risk-based supervisory approach comprised of a range of supervisory activities that include, among others, issuing regulations and guidance that are aligned with international standards, performing ongoing risk-based supervision through onsite/blended examinations, thematic reviews and offsite activities, including imposition of proportionate and dissuasive supervisory enforcement actions anchored on the BSP's supervisory enforcement action framework. It also includes active engagements with BSFIs/industry associations through regular meetings and outreach activities/trainings. In its updated statement issued on June 17, 2022 on jurisdictions under increased monitoring or "grey list", the Financial Action Task Force specifically cited that since June 2021, the Philippines has taken steps towards improving its AML.CFT regime, including by implementing registration requirements and applying proportionate dissuasive sanctions to unregistered and illegal remittance operators. | |
| ***Update on casinos and Offshore Gaming Operators**:* Casinos and Philippine Offshore Gaming Operators (POGOs) became covered persons under the AMLA through R.A 10927 and 11521, respectively, where they are classified as Designated Non-Financial Businesses and Professions (DNFBPs). Promulgation of the Casino Implementing Rules and Regulations (CIRR) and the 2018 Implementing Rules and Regulations (2018 IRR) provided details of implementation of the AMLA, as amended, to guide covered persons, supervising authorities, law enforcement agencies, other appropriate government agencies, and other stakeholders in combatting money laundering and terrorism financing. Aside from the CIRR, the AMLC also issued the 2021 AML/CTF Guidelines for Designated Non-Financial Business and Professions (DNFBPs) that sets forth the principles to be used by the DNFBPs throughout their businesses to combat money laundering and terrorism financing. To strengthen its risk-based supervision for high-risk sectors, the AMLC adopted its risk-based supervisory framework. The AMLC has imposed enforcement actions on six (6) POGOS, for noncooperation with the compliance examination.<br>PAGCOR applies risk-based supervision (RBS) to focus its supervisory actions on high-risk CPs, the land-based casinos and is able to implement mitigating controls to address the risks associated with casino operations such as junket operations. The "Casino Guide for a Fitness and Propriety Assessment of Junket Operators" was approved by the PAGCOR Board on June 21, 2022. | |
| Enhance the accuracy and availability of beneficial ownership information of companies (SEC). | MT |
| ***Update**:* As of July 1, 2022, the Securities and Exchange Commission (SEC) has entered into Data Sharing Agreements (DSAs) with four (4) government agencies: the Department of Trade and Industry – Strategic Trade Management Office, Bureau of Immigration, National Intelligence Coordinating Agency, and Philippine Amusement and Gaming Corporation. With the assistance of the AMLC and the National AML/CFT Coordinating Committee (NACC), the SEC is coordinating with other government agencies and law enforcement authorities (LEAs) for additional DSAs. | |

| Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations (Continued) | |
|---|---|
| The SEC continues to implement an aggressive registration strategy to enhance awareness and compliance of stakeholders/legal persons in the use of the Electronic Filing and Submission Tool (eFast) in submitting annual reports, including the General Information Sheet (GIS).<br>As of July 31, 2022, the SEC has reviewed compliance with the Beneficial Ownership disclosure requirement and issued notices of deficiencies and/or show-cause orders. The SEC implemented the following interventions to enhance the accuracy and availability of beneficial ownership information of companies: (1.) The SEC eFAST Filing System; (2.) SEC Registration Campaign through Outreach Programs. | |
| ***Crisis Management, Resolution, and Safety Net*** | |
| Ensure timely corrective actions and resolution of weak banks (BSP, PDIC). | ST |
| ***Update**:* The BSP has constituted the Technical Working Group (TWG) on Early Intervention and Triggers for Entry into Resolution Framework and Guidelines, under Sector Order No. 15 dated October 14, 2022, with the following tasks:<br>1. To facilitate the preparation of a structured early intervention framework and triggers for entry into resolution which will enable supervisors to detect deterioration in a financial institution's risk condition and/or deficiencies in risk management and governance, at an early stage. An upcoming World Bank mission will work with the TWG on the structured early intervention framework.<br>2. To develop relevant issuance and Supervisory Guidelines relating to the operationalization and implementation aspect of the early intervention framework as well as triggers for entry into resolution.<br>In terms of triggers for entry into resolution, it is worthy to mention that the trigger for closing a bank is very clear under the BSP Charter and those provisions are tested several times. Meanwhile, the BSP also has Internal Policies and Procedures on Banks for Resolution (BRes) Framework which provides, among others, the profile of banks under the BRes framework as well as guidelines and procedures on resolution options. | |
| Implement resolvability assessments and resolution plans, starting with D-SIBs (PDIC, BSP). | ST |
| ***Update***: The BSP has not yet undertaken resolvability assessments or prepared resolution plans for individual banks including DSIBs. However, DSIBs are currently required to submit their recovery plans which are evaluated by the BSP on an annual basis. Recovery plans include options undertaken by the banks in case of severe stress to restore its viability. Likewise, the BSP participated in the Asian Crisis Simulation Exercise conducted by the Financial Stability Institute last July 2022 which involved the orderly resolution of a simulated bank which is considered a DSIB in our jurisdiction. | |
| Make the legal framework for ELA more specific regarding the conditions under which it can be provided and avoid assistance without collateral (BSP). | ST |
| ***Update**:* The legal framework is specific regarding the conditions where ELA can be provided to banks, when ELA may be availed of, and sufficiency of collateral. See the Manual of Regulations for Banks (MORB) section 285. | |
| Designate and provide the PDIC with powers to act as resolution authority (PDIC, BSP, DoF). | MT |
| Expand and operationalize bank resolution tools (particularly P&A) beyond liquidation (PDIC). | MT |
| ***Update**:* With the enactment of the amendments of the PDIC Charter pursuant to Republic Act No. 11840, the role of the PDIC in the resolution of banks was made clear. In particular, to prevent an overlap in the functions of the PDIC with the primary regulator of banks, the BSP, and allow PDIC to exercise its core mandates as deposit insurer and liquidator of banks, certain powers of the PDIC were removed or modified to enable PDIC to effectively and efficiently fulfill its mandate. The powers of the PDIC on bank resolution, including granting consent to mergers and acquisitions, and the issuance of cease and desist orders pertaining to deposit-related unsafe and unsound banking were centralized with the BSP.<br>Meanwhile, after a bank is closed/prohibited from doing business in the Philippines, the law made clear that PDIC shall be designated as receiver, and it shall proceed with the takeover and liquidation of the closed bank. Nevertheless, R.A. No. 11840 provides the PDIC to preposition early on in the resolution process through the conduct of joint BSP-PDIC examinations whenever there is a finding of fraud, unsafe or unsound banking, and declaration of prompt corrective action (PCA) failure due to capital deficiency, among others. The instances for the exercise of the powers on bank examination are limited in order to prevent duplication of bank examination powers of the BSP and the PDIC. Also, BSP and PDIC conducts regular meetings to discuss banks under PCA or Banks for Resolution (BRes) frameworks through their information sharing arrangement.<br>The Implementing Rules and Regulations (IRR) of Republic Act No. 11840 was approved by the concerned agencies, PDIC, BSP and DOF on September 30, 2022 and published on October 11, 2022. | |

| Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations (Concluded) | |
|---|---|
| As to the recommendation to expand and operationalize bank resolution tools beyond liquidation, the BSP is currently guided to deploy Positive Resolution tools under Supervision Guidelines No. 2019-02 dated April 11, 2019. Such tools include Third Party Investor (TPI), Existing Stockholder Infusion (ESI), acquisition, merger, and consolidation. | |
| ***Climate Change, Environment Risks and Supervision*** | |
| Improve information collection, monitoring of risk metrics, and stress test capacity for climate change and environmental risks (BSP). | MT |
| ***Update***: The BSP is currently working with the World Bank and the World Wide Fund (WWF) for Nature Philippines in conducting climate stress testing and vulnerability assessment, respectively, to estimate the potential impact of climate and other environmental-related risks to the banking system. | |
| Short-term (ST) = within one year medium-term (MT) = one to three years. | |

# Appendix VI. Project CBDCPh: Wholesale CBDC in the Philippines[1]

*The BSP is currently in the process of planning for an upcoming wholesale CBDC pilot. A wholesale CBDC is being considered in the Philippines as a possible means to enhance existing payment and settlement functions. However, extensive pilots should be undertaken before the launch to gain a better understanding of the technology, policy implications, and build capacity.*

1. **The BSP had started exploratory studies on CBDC since 2020 to ensure that it was not behind the curve on digital innovation**. Based on the exploratory studies, the BSP's assessment was that a retail CBDC would have limited benefits for the Philippines economy due to widespread digitalization of retail payments and financial inclusion reforms. However, a wholesale CBDC could help enhance the safety and efficiency of the national payment system. Studies by the BSP found that a wholesale CBDC could address three main issues in the Philippines' national payment system: (i) frictions on cross border foreign currency transfers; (ii) settlement risk exposure arising from the use of commercial bank money in the equities market; and (iii) current challenges in operating the automated intraday liquidity facility.

2. **The BSP Charter allows the issuance of wholesale CBDC, but the regulatory framework may need to be revisited to ensure governance and financial stability risks are addressed**. Addressing cybersecurity concerns will be essential to reap the potential benefits of a CBDC, and adequate safeguards will need to be in place to ensure the safety of transactions and deter illegal transactions that could exacerbate de-risking pressures. For example, AML laws, rules and regulations should be strengthened and effectively implemented to address possible concerns arising from CBDC transactions, given the high ML/TF threats in the country and the reputational risks arising from the current FATF listing. Laws on data privacy, secrecy of deposits, counterfeiting of currency, as well as rules on foreclosure will also need to be considered. In addition, as noted by the BSP, allowing for a greater role of the central bank in financial intermediation might also reduce interbank activity and the price discovery role of market participants. This would detract rather than promote capital market deepening in the Philippines.

3. **An extensive period of developing proof-of-concept and learning from pilots could be a means to understand the technology, the implications of CBDC on policies, and build capacity**. Although several Asian countries have been the global front-runners of research and development, no country in the Asia-Pacific region has launched a CBDC to-date. As the issuance of a CBDC is complex, most countries at an advanced stage of development have opted to launch pilots to gain practical experience. The implementation of pilots does not imply near-term adoption but, more importantly, they can help understand the technology and gain a better understanding of policy implications while building capacity. Examples include Australia, China, India, Japan, Korea, and Thailand which have done extensive R&D and initiated pilots.

[1] Prepared by Ragnar Gudmundsson and Sarwat Jahan. This appendix will be updated as the TA reports are prepared and made public. Currently, the appendix draws on the publicly available studies by BSP and studies by the Fund.

**4. Interoperability of CBDC between jurisdictions could provide benefits for the Philippines as it receives substantial remittances and currently rely on costly correspondent banking networks for these transactions**. However, extensive testing through pilots will be necessary to address a myriad of challenges including policy and regulatory implications, technological infrastructure, governance, and organizational requirements, payment and settlement models, reconciliation procedures, and risk management. In this context, additional lessons could also be learned from the regional multi-currency CBDC projects. Examples include Project Dunbar and the Multiple CBDC (mCBDC) Bridge project, both which explores how a common platform for multiple central bank digital currencies (multi-CBDCs) could enable cheaper, faster, and safer cross-border payments. The Philippine authorities could benefit from the experience of these projects to navigate cross-border payments where regulations vary across countries. Another option to explore the possibility of cross-border payments using CBDC is by testing the system bilaterally with another central bank.

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

## Recent Capacity Development Support

1. **The Fund has provided considerable capacity development (CD) assistance to the Philippines to support the authorities' reform agenda, making the Philippines one of the largest recipients of Fund CD resources among emerging markets**. CD in the Philippines has focused on a wide range of topics covering fiscal reform, modernization of the monetary policy framework, macroeconomic frameworks, financial sector supervision, as well as real sector, balance of payments, and government finance statistics. The authorities have shown strong ownership and an ability to absorb Fund CD.

2. **Public financial management technical assistance (TA) has been extended on**: (i) strengthening treasury management (treasury single account and cash management); (ii) improving the financial management information system; (iii) conducting a Public Investment Management Assessment in 2018; (iv) strengthening the financial oversight of government-owned and controlled companies (GOCCs); (v) training on international accounting standards; and (vi) management of public private partnerships (PPPs). Following a TADAT assessment in 2015, revenue administration TA was provided on the VAT refund. Tax policy TA has recently covered international taxation, tax treaty negotiations, and the review of mining taxation.

3. **In the monetary sector, focus has been placed on supporting monetary operations with the introduction of an interest rate corridor system and raising the effectiveness of monetary and financial stability policy communications**. In the financial sector, Fund TA has focused on strengthening the supervision framework in the context of the 2020 Financial System Stability Assessment, enhancing financial soundness indicators, training on financial market analysis from a macroprudential perspective, as well as debt management and capital market development.

## Forward-Looking CD Agenda

4. **The authorities have identified additional CD priorities where support from the IMF would further contribute to the reform agenda.** Some of the assistance is already ongoing while other requests remain to be addressed.

5. **In the fiscal sector, the authorities have requested a follow-up mission on accounting and financial reporting of GOCCs to review the progress made in this area since 2019**, provide methodological guidance to take the reform forward, and help develop a prioritized implementation plan to bring the financial accounting and reporting frameworks of GOCCs and PPPs in line with international standards. Additional support from the Fiscal Affairs Department may center on: (i) developing capacity on negotiating tax treaties, including with regards to base erosion and profit shifting; and (ii) conducting a holistic diagnostic of the achievements of the last years on domestic policy taxation and considering new sources of revenue, including from digitalization. The authorities have also indicated the need for TA on revenue forecasting and requested training on macroeconomic diagnostics. An ICD scoping mission during FY23 will conduct an in-depth

diagnostic of needs and capacity in applying both dynamic stochastic general equilibrium and FPP-based models.

6. **Support for the implementation of monetary policy will center on**: (i) inflation forecasting and refinements to the BSP's Policy Analysis Model for the Philippines to facilitate structured and data-coherent forecasting and integrated analysis of monetary and other policies; and (ii) transitioning from exceptional measures taken in response to the COVID-19 shock and reforming liquidity management operations. Further enhancements to the BSP's communication strategy have recently focused on: (i) the provision of forward guidance on policy rates; (ii) elevating the Monetary Policy Report to the role of flagship publication; (iii) communicating the unwinding of crisis support measures; and (iv) how best to integrate communication aspects of digital money, cyber, and climate-related financial risks. The authorities have also requested the Fund to advise and provide training for a sandbox project on the development of a wholesale CBDC.

7. **In the financial sector, the Fund has been requested to provide technical assistance on**: (i) financial conglomerates supervision and the establishment of a supervisory college; (ii) assessing the expected credit loss model of banks; (iii) assessing the operational resilience of the banking system; and (iv) advising on the trust regulatory framework. Requests have also been made by the Securities and Exchange Commission for TA to develop risk management instruments and by the Bureau of the Treasury for TA to enhance its cash management, further develop the government's debt management strategy, deepen the domestic debt market through innovative financial instruments, and develop a strategy to access the international capital markets.

8. **Fund support to enhance the quality of statistics will focus on assessing the compilation and dissemination framework for external sector statistics**, enhancing the compilation of cross-border trade in services, assisting with the introduction of the updated Residential Real Estate Price Index and Commercial Property Price Index, developing a new Services Producer Price Index, and improving fiscal data to support surveillance and decision-making.

INTERNATIONAL MONETARY FUND

# PHILIPPINES

November 4, 2022

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX


Prepared By: Asia and Pacific Department


## CONTENTS

# FUND RELATIONS

(As of September 30, 2022)

**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) | 1,472.09 | 72.06 |
| Reserve tranche position | 570.83 | 27.94 |
| Lending to the Fund<br>New Arrangements to Borrow | 4.53 | |

**SDR Department**

| | SDR Millions | Percent of Allocation |
|---|---|---|
| Net cumulative allocation | 2,795.99 | 100.00 |
| Holdings | 2,815.93 | 100.71 |

**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 2021 Article IV consultation was held on August 6, 2021 (IMF Country Report No. 20/36).

**Financial Sector Assessment Program (FSAP)**

The work of the 2021 FSAP was conducted from June 2019 and during the COVID-19 outbreak, with virtual missions concluding on October 20, 2020. The findings were presented to the Executive Board and concluded on March 5, 2021 (IMF Country Report No. 21/74). The previous FSAP Update was published on April 7, 2010 (IMF Country Report No. 10/90).

**Resident Representative**

A Resident Representative has been stationed in Manila since January 1984. Mr. Ragnar Gudmundsson has been the Resident Representative for the Philippines since October 2021.

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

# STATISTICAL ISSUES

(As of October 24, 2022)

| I. Assessment of Data Adequacy for Surveillance | |
|---|---|
| **General**: Data provision is broadly adequate for surveillance with some shortcomings in external sector and fiscal statistics. | |
| **National accounts**: The Philippine Statistics Authority (PSA) has rebased the national accounts from 2000 to 2018 and adopted the *2008 System of National Accounts*. The results, disseminated in 2020, reflect continued strides by the authorities on improving data quality. 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 February 2022, the PSA introduced an updated consumer price index (CPI) with an index reference period of 2018=100. Weights used in the new series were derived from the results of the 2018 Family Income and Expenditures Survey. The PSA disseminate the CPI five days after the reference month. In March 2021, the PSA updated the index reference period of the producer price index (PPI) to 2018=100, with weights from the 2018 Census of Philippine Business and Industry. The PSA is working to expand PPI coverage to the services sectors. The BSP publishes a quarterly residential real estate price index (RREPI) using a basic stratification approach. The authorities intend to implement improved methods for the RREPI and publish information on commercial property prices (land only) for the first time. | |
| **External sector statistics (ESS)**: The BSP completed the balance of payments compilation based on the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) framework in March 2014, and that of the international investment position (IIP) in September 2014. Current account transactions and portfolio investment and other investment transactions and positions are adequately covered and treated broadly in line with BPM6, with some of the most relevant components, such as remittances and IT-related business services requiring minor improvements.<br><br>Some ESS components, though, present relevant shortcomings regarding coverage as well as consistency across datasets, most notably direct investment equity and debt, and portfolio debt securities. Most of these issues can be mitigated by improvements in the ESS data collection framework. In April 2022, STA provided a TA to the BSP for improving the ESS data collection framework. | |
| **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 Survey, after a joint effort between the Insurance Commission, SEC, the Governance Commission for GOCCs, and BSP, supported by STA TA program. Currently, the results of the survey are now being disseminated through *IFS*. The BSP reports data on several series and indicators of the Financial Access Survey, including mobile money series and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals.<br><br>**Financial sector surveillance**: The authorities report all 15 core financial soundness indicators (FSIs), 7 of the 12 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. | |
| **Government finance statistics (GFS)**: Provision of fiscal data is broadly adequate for surveillance. Philippines report data for the budgetary central government in the *GFSM 2014* format. The authorities have made significant progress on regular production of quarterly GFS, supported by STA, expanding the sector coverage of GFS to the general government on a higher frequency, and enhancing compilation of data on public debt. Some of these improvements are yet to be reflected in the published data, pending the implementation of administrative arrangements and finalization of recording of transfers to the lower government tier. | |
| **II. Data Standards and Quality** | |
| A subscriber to the Special Data Dissemination Standard (SDDS) since 1996, Philippines met SDDS specifications in January 2001 and uses SDDS flexibility options on the timeliness of production index and producer prices data. Philippines' latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board. | A data ROSC was published in August 2004. |

## Philippines: Table of Common Indicators Required for Surveillance

(As of October 11, 2022)

| | Date of Latest Observation | Date Received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of Publication[7] |
|---|---|---|---|---|---|
| Exchange rates | 10/11/2022 | 10/11/2022 | D | D | D |
| International reserve assets and reserve liabilities of the monetary authorities[1] | 9/2022 | 10/2022 | M | M | M |
| Reserve/base money | 8/2022 | 9/2022 | D | W | W |
| Broad money | 8/2022 | 9/2022 | M | M | M |
| Central bank balance sheet | 8/2022 | 9/2022 | M | M | M |
| Consolidated balance sheet of the banking system[2] | 8/2022 | 9/2022 | M | M | M |
| Interest rates[3] | 10/11/2022 | 10/11/2022 | D | D | D |
| Consumer price index | 9/2022 | 10/2022 | M | M | M |
| Revenue, expenditure, balance and composition of financing[4]—general government[4] | 2021 | 6/2022 | A | A | A |
| Revenue, expenditure, balance and composition of financing[4]—central government | 8/2022 | 9/2022 | M | M | M |
| Stocks of central government and central government-guaranteed debt[5] | 8/2022 | 9/2022 | M | M | M |
| External current account balance | 6/2022 | 9/2022 | M | Q | Q |
| Exports and imports of goods and services | 6/2022 | 9/2022 | M | Q | Q |
| GDP/GNP | Q2:2022 | 8/2022 | Q | Q | Q |
| Gross external debt | Q2:2022 | 8/2022 | Q | Q | Q |
| International investment position[6] | Q2:2022 | 9/2022 | Q | Q | Q |

[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).

INTERNATIONAL MONETARY FUND

# PHILIPPINES

November 17, 2022

## STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION—SUPPLEMENTARY INFORMATION

Prepared By Asia and Pacific Department

*This statement provides an update on macroeconomic developments in the Philippines. The information below has become available following the issuance of the staff report. The update does not alter the thrust of the staff appraisal.*

**1. On November 4, the Philippine Statistics Authority released the October 2022 inflation data**:

- Headline inflation rose by 7.7 percent year-on-year in October, higher than the 6.9 percent recorded in September, while core inflation accelerated to 5.9 percent from 5.0 percent the previous month.
- The higher inflation in October was mainly attributable to a faster pick-up in the prices of food commodities, which increased by 9.4 percent from 7.4 percent the previous month, as food supplies were disrupted by typhoons that hit the country in September.

**2. On November 11, the Philippine Statistics Authority released the 2022Q3 national account data**:

- The economy expanded by 7.6 percent year-on-year in the third quarter of 2022, slightly higher than the 7.5 percent growth recorded in the previous quarter, reflecting robust private consumption and investment.

**3. On November 17, Bangko Sentral ng Pilipinas hiked the policy rate by 75 basis points**, bringing the cumulative increase in the policy rate to 300 basis points so far this year.