



PHILIPPINES

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; AND STAFF REPORT

December 2024

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 2024 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 a lapse of time basis, following discussions that ended on October 2, 2024, 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 15, 2024
- An **Informational Annex** prepared by the IMF staff.

The documents listed below have been or 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.



IMF Executive Board Concludes 2024 Article IV Consultation with the Philippines

FOR IMMEDIATE RELEASE

Washington, DC – December 19, 2024: On December 4, 2024, the Executive Board of the International Monetary Fund (IMF) concluded the 2024 Article IV consultation¹ with the Philippines.

Following a strong post-pandemic rebound in 2022, the Philippine economy moderated in 2023, growing by 5.5 percent. Growth recovered to 5.8 percent in the first three quarters of 2024 driven by strong public consumption and public construction, which was partially offset by the El Nino weather phenomena and subdued private consumption. Both headline and core inflation decelerated from their peaks in early 2023—to 2.3 and 2.4 percent (year-on-year) respectively in October 2024. The current account deficit narrowed to 2.7 percent of GDP in 2023 from 4.5 percent and is expected to narrow further in 2024 amid lower commodity prices, a gradual pick-up in tourism and business process outsourcing sector receipts. The banking system has weathered the high interest environment well so far with sufficient liquidity and capital buffers.

Growth is expected to accelerate in 2024-25, supported by disinflation, and gradually declining borrowing costs as monetary policy normalizes. Growth is expected to reach 5.8 percent in 2024 and pick up to 6.1 percent in 2025. Potential output is estimated to be between 6.0 to 6.3 percent over the medium term. Inflation is projected decline to 3.2 percent on average in 2024 from 6.0 percent in 2023, supported by the reduction in rice tariffs and other non-monetary measures to reduce food prices. The current account deficit is expected to narrow to 2.0 and 1.9 percent in 2024 and 2025. The risks to the near-term growth outlook are tilted to the downside, mainly stemming from recurrent commodity price volatility, new supply shocks, an escalation of geopolitical tensions, monetary policy stance in advanced economies turning out to be too tight for longer, a growth slowdown in major economies, major natural disasters or extreme climate events, and stalled reform momentum or lower than expected payoffs from reforms.

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.

Executive Board Assessment²

In concluding the 2024 Article IV consultation discussions with the Philippines, Executive Directors endorsed the staff's appraisal, as follows:

The authorities have handled the challenges arising from multiple external headwinds well with wide-ranging plans for high and inclusive growth. Growth has been resilient, despite external shocks and an unprecedented tightening in global monetary conditions. Following a sharp increase in inflation in 2022, as in other countries, the authorities promptly adjusted the policy rate, and initiated gradual fiscal consolidation. Several key reforms have been introduced to spur investment and promote exports.

Growth is expected to pick up modestly in 2024-25 while inflation should remain within the Bangko Sentral ng Pilipinas (BSP)'s target range. Growth will be supported by an acceleration in consumption as food prices ease and by an increase in investment sustained by continued emphasis on public investment and more accommodative financial conditions. The 2023 external sector position is assessed to be broadly in line with the level implied by the fundamentals and desirable policies. Risks to the near-term growth outlook are tilted to the downside, including external risks such as recurrent commodity price volatility and escalation of geopolitical tensions, and domestic risks related to lower-than-expected payoffs from reforms. New supply shocks and recurring commodity price volatility represent upside inflation risks.

The BSP has room to ease the policy rate gradually towards a neutral stance. With inflation and inflation expectations returning towards target and the output gap turning negative, a continued gradual reduction in the policy rate is appropriate. A data-dependent approach and careful communication will be important to manage expectations amid uncertainty and more frequent supply-side shocks. The exchange rate should continue to play its role as a shock absorber, while FXI may be appropriate under certain circumstances. Establishing a credible yield curve is important to develop the fixed-income market and improve monetary policy transmission.

Systemic risks within the financial system are moderate, but pockets of vulnerabilities remain. The banking system has sufficient liquidity and capital buffers, and non-performing loans are low. However, parts of the commercial real estate sector have seen persistently high vacancies and falling rents, and non-performing housing loans remain elevated. The rapid growth in consumer loans warrants close monitoring. The BSP should be ready to adjust macroprudential policy in line with developments in the financial cycle to mitigate the build-up of vulnerabilities and move toward a positive neutral level for the countercyclical capital buffer. Its capacity to assess financial stability risks and resolve troubled financial institutions should also be strengthened.

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

The authorities have made significant progress in addressing outstanding anti-money laundering and combating the financing of terrorism (AML/CFT) issues, which should continue. The Financial Action Task Force (FATF)'s initial determination that the Philippines has substantially completed its action plan is welcome. Going forward, keeping up with evolving FATF requirements will be important in the context of the next mutual evaluation in 2027. Reforming the bank secrecy law will strengthen AML/CFT effectiveness and enhance the BSP's supervisory powers.

The more gradual pace of consolidation in the revised fiscal program is appropriate and should be supported by a concrete and sustainable plan to raise tax revenues and implement expenditure reforms. The 2025 budget proposes a broadly neutral fiscal stance, which can help mitigate downside risks to growth, but additional tax measures should be considered to create more space for spending in priority areas. Tax reforms could prioritize implementing previously planned excise tax measures, enhancing value-added tax efficiency, improving tax administration, and ensuring effective control of tax incentives. Efforts should also focus on reforming the military and uniformed personnel pension system, improving expenditure efficiency, and effectively managing fiscal risks.

The Philippine economy holds significant potential with its abundant natural resources, untapped blue economy, and a sizable demographic dividend. Unlocking the medium-term growth potential will crucially depend on comprehensive and well-sequenced structural reforms. These reforms, coupled with strengthened social protection programs, should aim to boost job creation, enhance productivity, increase resilience to climate change, and reduce poverty and inequality. Priority areas include upgrading infrastructure, making significant investments in healthcare and education, addressing land fragmentation and low productivity in the agricultural sector, and enhancing governance. In this context, digitalization provides an important opportunity to improve access to quality education, promote financial inclusion, and enhance public spending efficiency.

Table 1. Philippines: Selected Economic Indicators, 2021–2026

Demographic: Population (2023): 111.9 million; Life expectancy at birth (2022): 72.2

Poverty in percent of population: Below \$2.15 a day (2021): 3; Below the national poverty line (2023): 15.5.

Inequality (2021, income shares): Top 10 percent: 32.5; Bottom 20 percent: 6.5.

IMF quota: SDR 2,042.9 million.

Main export products: electronics, mineral, agro-based products, equipments, and chemicals.

	2021	2022	2023	2024 Est.	2025 Proj.	2026 Proj.
	(Annual percentage change, unless otherwise indicated)					
National account						
Real GDP	5.7	7.6	5.5	5.8	6.1	6.3
Consumption	4.7	7.7	4.7	5.4	5.8	6.0
Private	4.2	8.3	5.6	5.2	6.3	6.5
Public	7.2	5.1	0.6	6.4	3.0	3.3
Gross fixed capital formation	9.8	9.8	8.2	8.3	8.6	8.9
Final domestic demand	5.7	8.1	5.4	6.0	6.4	6.6
Net exports (contribution to growth)	-2.3	-2.2	0.0	-1.0	-1.0	-1.1
Real GDP per capita	4.9	6.7	4.6	4.6	5.0	5.2
Output gap (percent, +=above potential)	-3.5	0.4	0.2	-0.2	-0.1	0.0
Labor market						
Unemployment rate (percent of labor force)	7.8	5.4	4.4	4.0	4.5	4.5
Underemployment rate (percent of employed persons)	15.9	14.2	12.3	...	...	...
Employment	11.7	6.6	2.8	1.6	1.6	1.6
Price						
Consumer prices (period average)	3.9	5.8	6.0	3.2	2.8	3.0
Consumer prices (end of period)	3.1	8.1	3.9	2.6	3.1	3.0
Core consumer prices (period average)	3.0	3.9	6.6	2.9	2.9	2.9
Residential real estate (Q4/Q4)	4.9	7.7	6.5	...	...	...
Money and credit (end of period)						
Overnight reverse repo rate (policy rate)	2.0	5.5	6.5	...	...	...
Claims on private sector (in percent of GDP)	49.9	48.9	48.3	49.3	50.8	52.2
Claims on private sector (yoy growth rate)	3.8	11.1	9.1	11.0	11.9	11.9
Monetary base	5.8	5.1	5.5	7.6	8.5	9.0
Broad money	8.0	8.0	7.4	8.8	8.4	8.6
Public finances (in percent of GDP)						
National government overall balance 1/	-8.3	-7.2	-6.1	-5.6	-5.6	-4.6
Revenue and grants	15.5	16.1	15.7	16.6	15.8	15.8
Total expenditure	23.8	23.2	21.8	22.2	21.4	20.5
National government gross debt	60.4	60.9	60.1	61.2	62.0	61.7
Balance of payments (in percent of GDP)						
Current account balance	-1.5	-4.5	-2.7	-2.0	-1.9	-1.8
FDI, net	-2.5	-1.4	-1.2	-1.2	-1.3	-1.5
Total external debt	27.0	27.5	28.7	28.9	28.5	27.5
Gross reserves						
Gross reserves (US\$ billions)	108.8	96.1	103.8	113.3	115.9	117.5
Gross reserves (percent of short-term debt, remaining maturity)	512.3	381.3	384.7	466.4	443.8	451.3
Memorandum items:						
Nominal GDP (US\$ billions)	394.1	404.4	437.1	469.5	506.0	548.4
Nominal GDP per capita (US\$)	3,580	3,645	3,906	4,148	4,424	4,745
GDP (in billions of pesos)	19,411	22,028	24,319	26,432	28,691	31,260
Real effective exchange rate (2010=100)	111.1	109.3	113.1	...	...	...
Peso per U.S. dollar (period average)	49.3	54.5	55.6	...	...	...

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

1/ IMF definition with privatization receipts, equity, and net lending excluded.



PHILIPPINES

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

November 15, 2024

KEY ISSUES

Context. The Philippines has successfully navigated multiple external headwinds in recent years and is pursuing an extensive plan to achieve high and inclusive growth. After moderating in 2023, growth is expected to pick up in 2024-25, supported by gradual monetary policy easing. Inflation has declined to within the target band, though supply shocks pose upside risks. Risks to the growth outlook are tilted to the downside, including from recurrent commodity price volatility, escalation of geopolitical tensions and lower-than-expected payoffs from recent reforms. With macroeconomic policies well calibrated to achieve a soft landing in the near-term, expanding the economy's growth potential will be pivotal for the medium-term outlook.

Main Policy Recommendations.

- *Monetary policy.* Moving to a neutral stance through continued gradual reduction of the policy rate is appropriate. A data-dependent approach, and careful communication around policy settings will be important to manage expectations amid uncertainty around inflation and the US monetary policy path.
- *Financial sector.* Overall systemic risk remains moderate, with continued vigilance warranted against vulnerabilities, including in the real estate sector. The authorities should be ready to adjust macroprudential policy, in line with developments in the financial cycle, to preempt the build-up of vulnerabilities, and move toward a positive neutral level for the countercyclical capital buffer. Continued efforts to strengthen financial supervision and regulation and sustained reforms to enhance AML/CFT effectiveness are important.
- *Fiscal policy.* Fiscal consolidation, supported by a sustainable plan to raise tax revenues and implement expenditure reforms, should continue over the medium term to replenish fiscal space. Curtailing contingent liabilities, and effectively managing the process of decentralization and PPPs would help reduce fiscal risks and improve governance.
- *Structural policy.* Sustained efforts to reduce infrastructure and education gaps, promote foreign investment, strengthen governance, and harness the digital economy can boost growth potential and inclusivity, and leverage the Philippines' demographic dividend. These reforms should be complemented by efforts to further strengthen skills and the social safety net while addressing climate risks through robust adaptation measures.

Approved By
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(SPR)

Discussions took place in Manila and Iloilo during September 18–October 2, 2024. The mission comprised Elif Arbatli Saxegaard (Mission Chief), Tristan Hennig, Ragnar Gudmundsson (Resident Representative), Yinqiu Lu, and Margaux MacDonald (all APD), and Pawel Zabczyk (MCM). Staff in the office of the Resident Representative (RR) supported the mission. Raja Anwar, and Maria Teresa Dueñas (OED) joined some of the meetings. Supriyo De (FAD), Marius Torres (RR Office), Agnes Isnawangsih, Jeongwon Son, and Patricia Tanseco (all APD) contributed to the preparation of this report.

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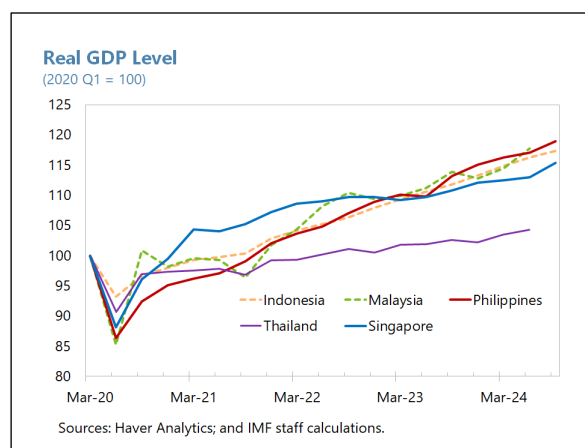
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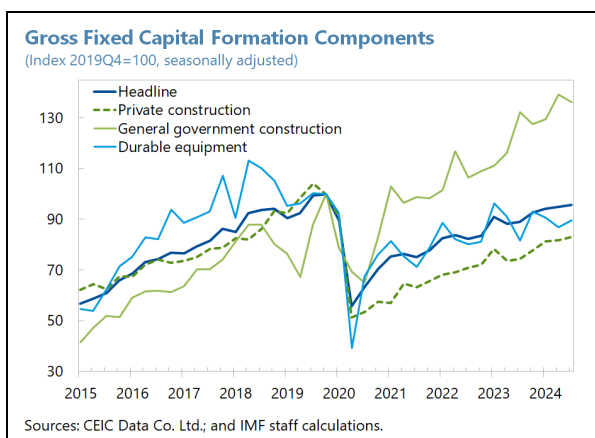
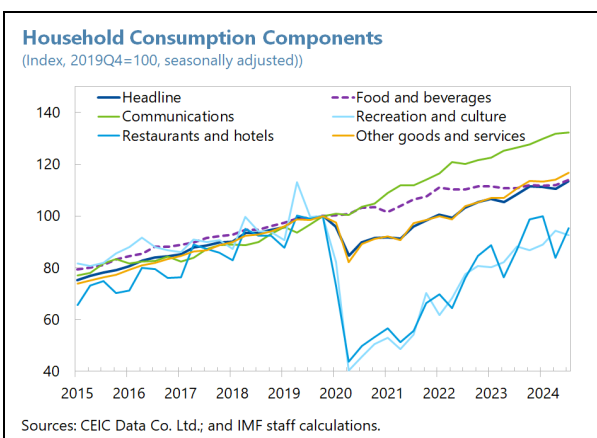
CONTEXT

1. The Philippines has successfully navigated multiple external headwinds in recent years and remained among the best performing economies in the region. Growth has been resilient, despite elevated commodity prices, weak external demand, and an unprecedented tightening in global monetary conditions. The gross national income (GNI) per capita increased strongly to US\$4,230 in 2023, putting the Philippines on track to soon achieve Upper-Middle Income Country status. The poverty rate, while still high, declined from 18.1 percent in 2021 to 15.5 percent in 2023. Following a sharp increase in inflation in 2022 (as in other countries), the country promptly adjusted monetary policy and initiated gradual fiscal consolidation to bring down debt. With macroeconomic policies well calibrated to achieve a soft landing in the near term, expanding the economy's growth potential will shape the medium-term outlook. Looking ahead, the Philippines is pursuing an extensive plan for high and inclusive growth, with recent legislative reforms prioritizing attracting foreign investment, raising competitiveness, and improving the business environment.

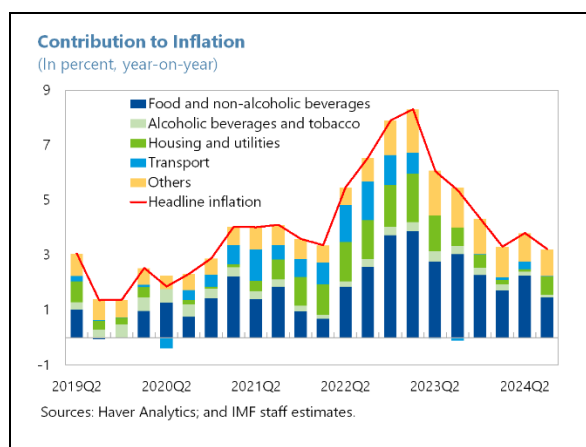
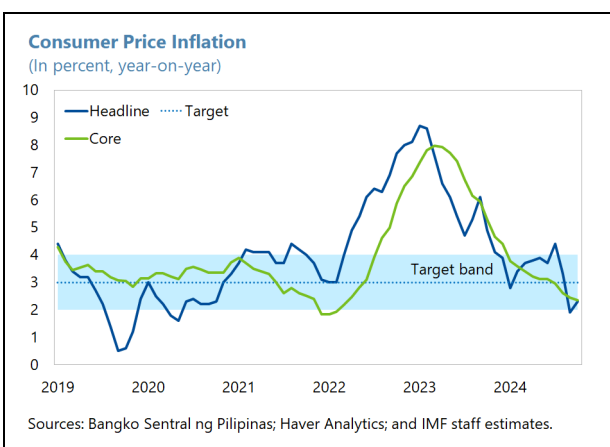


RECENT DEVELOPMENTS

2. Growth moderated in 2023, after a strong post-pandemic rebound in 2022. Pent-up demand normalization, tighter policy settings, and external headwinds led growth to moderate from 7.6 percent in 2022 to 5.5 percent in 2023 (Figure 1). Growth moderated further in sequential terms in the first three quarters of 2024, averaging 4.6 percent (seasonally-adjusted annualized rate) and 5.8 percent (y/y), also reflecting the impact of the El Niño weather phenomenon. Private consumption was subdued, as rice and other food prices increased substantially over the last year, while public consumption expanded to provide support. Gross fixed capital formation remains restrained relative to its pre-pandemic level, notwithstanding a strong rebound in public construction. Foreign direct investment (FDI) showed signs of recovery in 2024H1, from a low base in 2023, and remains below pre-pandemic levels.



3. Inflation decelerated to fall within the target band, as the BSP maintained its restrictive monetary policy stance, and commodity prices eased. Core inflation continued its steady decline thus far in 2024 to 2.4 percent (y/y) in October, and headline inflation declined to 2.3 percent (y/y), on the back of lower rice and fuel prices (Figure 2). Year-to-date average headline inflation was 3.3 percent, within the BSP's target band of 3.0 percent \pm 1.0 percentage point (ppt). The BSP reduced its policy rate by 25 basis points in August—the first rate cut since it raised its policy rate by a cumulative 450 basis points starting in May 2022. The BSP implemented another 25-basis points rate cut in October, and in September, announced a significant reduction in bank reserve requirements, to reduce distortions in financial intermediation.¹

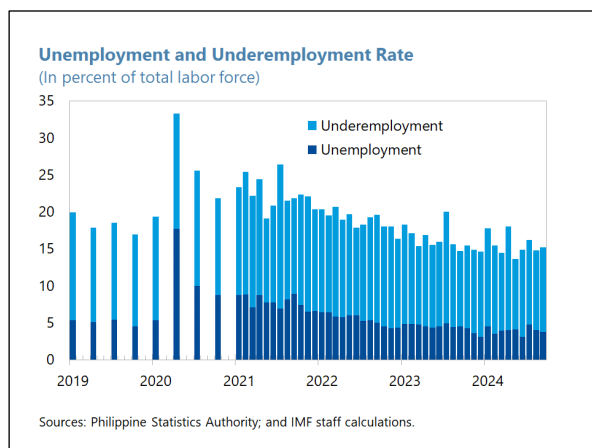


4. Labor market conditions have continued to improve. The unemployment rate declined further to 3.7 percent in September (from 4.5 percent a year ago) and remains below pre-pandemic levels. Gains in employment were primarily in the construction sector, while large job losses were seen in agriculture, reflecting the impact of El Niño. The underemployment rate, capturing employed persons who are seeking longer working hours or additional jobs, remains high at about 11.9 percent (Figure 3). Additionally, hours worked remain below pre-pandemic averages. Real

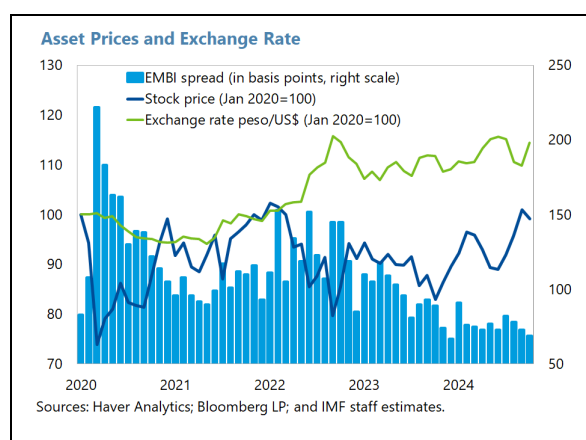
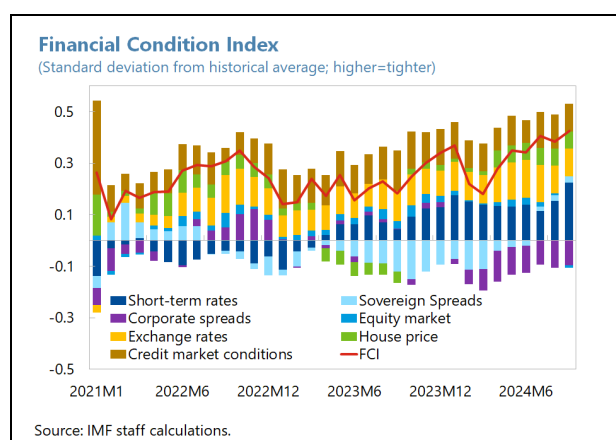
¹ The bank reserve requirements are reduced by 100-250 basis points depending on bank type (from 9.5 percent to 7 percent for universal and commercial banks), effective October 25, 2024.

wages recovered in 2023-24 from an all-time low in 2022 and rose slightly above pre-pandemic levels for the first time in July 2024.

5. The external position in 2023 is assessed to be broadly in line with the level implied by macroeconomic fundamentals and desirable policies (Annex II). The current account deficit narrowed further to 2.7 percent of GDP in 2023 from 4.5 percent of GDP in 2022. Gross international reserves (GIR) rose to US\$112.4 billion at end-October 2024, up from US\$103.8 billion at end-2023, and a low of US\$93.0 billion in September 2022. GIR as of end-2023 remained comfortable at 196 percent of the IMF's ARA metric, covering 7.8 months of imports.² The exchange rate continued to depreciate in 2024, amid volatility and shifting expectations around US monetary policy.



6. Domestic financial conditions have been restrictive, reflecting domestic monetary policy tightening and global financial conditions. The real short-term rate continued to rise in 2023, as the policy rate remained stable and inflation came down, contributing to a slowdown in credit growth in 2023. Credit growth has since picked up but remains below its historical average. Corporate and sovereign spreads, on the other hand, remain historically low, and the term spread has declined, with 10-year sovereign bond yields at 5.9 percent (Figures 5-6).



7. The fiscal position continued to improve in 2023. The national government fiscal deficit narrowed to 6.1 percent of GDP in 2023 from 7.2 percent of GDP in 2022 (Figure 7),³ as lower

² The Philippines also has a comfortable net international reserve position, estimated at US\$112.4 billion as of end-October 2024.

³ Based on the Government Finance Statistics (GFS) 2014 definition. The deficit-to-GDP ratios are 7.3 percent for 2022 and 6.2 percent for 2023 based on the authorities' definition.

current spending—largely due to lower transfers to the local government units (LGUs)⁴—more than offset the one-off negative cash flow impact from the transition from monthly to quarterly value-added tax (VAT) payments (about 0.4 percent of GDP). The national government debt declined from 60.9 percent of GDP at end-2022 to 60.1 percent of GDP at end-2023.

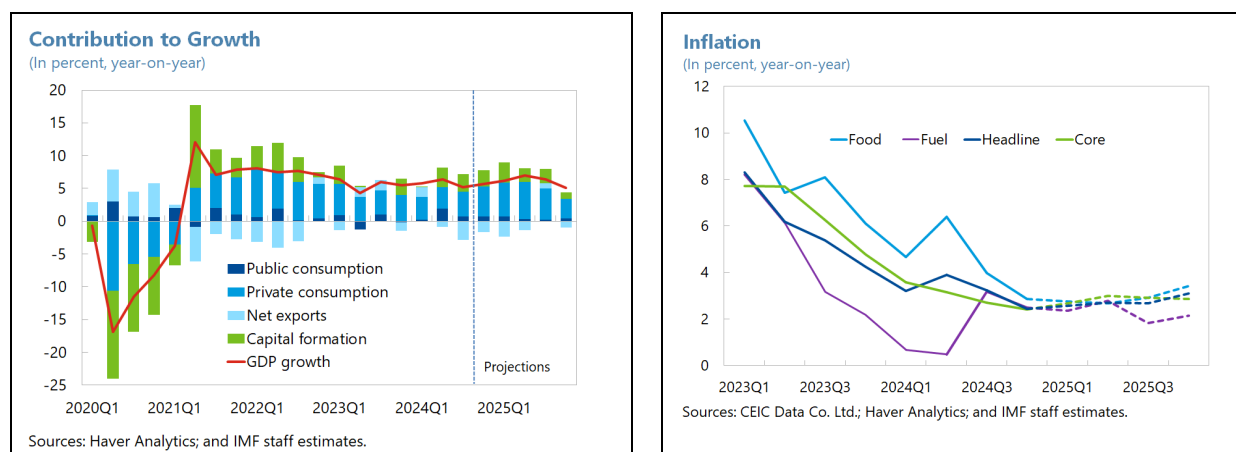
National Government Fiscal Operations, 2022-2023				
(In percent of GDP)				
	2022	2023		
	Actual	2023 BESF	2024 BESF	Actual
Revenues	16.1	15.3	15.2	15.7
Tax revenues	14.6	14.6	14.4	14.1
Non-tax revenues	1.5	0.7	0.8	1.6
Expenditure	23.2	21.3	21.2	21.8
Current expenditure	18.6	17.2	17.0	16.9
of which:				
Compensation of employees	6.3	6.5	5.9	5.9
Use of goods and services	4.0	3.5	3.8	3.8
Interest payment	2.3	2.5	2.5	2.6
Allotment to LGUs	3.8	3.1	2.9	2.9
Capital transfers to LGUs	1.2	0.9	0.9	0.9
Capital expenditure	4.6	4.1	4.2	5.0
Overall balance 1/	-7.2	-6.0	-6.0	-6.1
Overall balance (authorities' definition)	-7.3	-6.1	-6.1	-6.2
Primary balance 1/	-4.9	-3.5	-3.5	-3.5
Primary balance excluding cash flow impact on VAT	-4.9	-3.2	-3.1	-3.2
Primary balance excluding cash flow impact on VAT and transfer to LGUs	0.1	0.8	0.7	0.6
<i>Memo items:</i>				
Nominal GDP (in billions of peso)	22,028	23,755	24,522	24,319
Sources: Philippine authorities; and IMF staff estimates.				
Note: BESF=Budget of Expenditures and Sources of Financing.				
1/ Based on GFS 2014 definition, privatization receipts are excluded from revenues; equity and net lending are excluded from expenditure; and capital transfers to LGUs are included under current expenditure. Deficit based on the authorities' definition is about 0.1 percentage of GDP wider.				

OUTLOOK: A SOFT LANDING

8. Growth is expected to pick up modestly in 2024-25, and inflation to remain within the BSP's target band. Growth is projected at 5.8 and 6.1 percent in 2024 and 2025 respectively, supported by gradual monetary policy easing, amid a small negative output gap. Consumption growth will be buoyed by lower food prices and the upcoming midterm elections, while investment growth is expected to pick up on the back of a sustained public investment push, and gradually declining borrowing costs. Inflation is expected to average 3.2 percent in 2024 and 2.8 percent in 2025, with upward revisions to electricity rates balanced off by the reduction in rice tariffs and other

⁴ The national tax allotment of LGUs is calculated based on national tax collected in the third year immediately preceding the budget year. The associated transfers to LGUs declined in 2023, reflecting the lower tax collection in 2020 due to the pandemic.

non-monetary measures to reduce food prices.⁵ Over the medium term, investment is expected to be supported by an acceleration in the implementation of public-private partnership (PPP) projects and FDI, following recent legislative reforms, while potential growth will reach 6.0-6.3 percent.⁶



Select Legislative Reforms to Encourage Investment

Reforms	Status (as of November 12, 2024)	Key objectives
Amendments to the Retail Trade Liberalization Act	Signed into law in December 2021	Reduce the minimum paid-up capital of foreign retailers.
Amendments to the Foreign Investments Act	Signed into law in March 2022	Open up full foreign ownership except in areas in the negative list.
Amendments to the Public Service Act	Signed into law in March 2022	Open up most public services to full foreign ownership.
Amendments to the Renewable Energy Act	Circular issued in November 2022 by the Department of Energy	Open up the renewable energy sector to full foreign ownership.
The Public-Private Partnership Code	Signed into law in December 2023	Codify all prior statutes related to PPP under a comprehensive law.
Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE)	Signed into law in November 2024	Enhance tax incentives and facilitate the granting of incentives through giving more power to investment promotion agencies, expand the set of export companies who can benefit from VAT exemptions, and bring more predictability to local government taxation.
Rationalization of the Mining Fiscal Regime	Approved by the House of Representatives (HOR), and pending at the Senate	Reinforce sustainable mining practices and ensure fair regulations in the mining sector.
Amendments to the Right-of-Way Act	Approved by the HOR, and pending at the Senate	Expedite the implementation of critical infrastructure projects by streamlining the right-of-way acquisition.
The Electric Power Industry Reform Act	Pending in the HOR and Senate	Provide a framework for enhancing competitiveness in the power industry through privatization, transition to a desired competitive structure, and defining the responsibilities among government and private entities.

Source: Philippine authorities.

⁵ Executive Order No. 62, effective July 7, 2024 until 2028, cuts tariff rates on rice from 35 percent to 15 percent and maintains decreased tariffs on other agricultural products. It is subject to review every four months. An Administrative Order No. 20 issued in April 20, 2024 removed non-tariff barriers for key food items.

⁶ See the companion Selected Issues Paper, "Potential Growth and Demographic Dividend."

9. The external position is expected to improve slightly. The current account deficit is expected to continue to narrow to 2.0 and 1.9 percent of GDP in 2024 and 2025 respectively. This will be supported by lower commodity prices, a gradual pick-up in tourism and business process outsourcing (BPO) sector receipts. Inward remittances are also expected to rise slightly. FDI inflows are expected to improve relative to 2023, on the back of lower policy rates in advanced economies, and the overall balance of payment (BOP) position to remain in surplus.

Authorities' Views

10. The authorities expect growth to be within the targeted range for 2024-25. The official growth target ranges are 6.0-7.0 percent for 2024 and 6.5-7.5 percent for 2025. The authorities expect private consumption growth to pick up in 2025, on the back of easing inflation and a strong labor market. Private investment is expected to grow strongly over the medium-term, as monetary policy easing takes hold and reforms to improve the investment climate such as the CREATE MORE Act pay off and major infrastructure projects are implemented. The authorities concur with staff's projected disinflation trajectory and emphasize the role of non-monetary measures to mitigate food prices. They project the current account deficit as a percentage of GDP to narrow in 2024 and 2025 on account of increased receipts from travel and the BPO sector, despite expectations that semi-conductor exports will remain subdued.

RISKS: TO THE DOWNSIDE

11. Risks to the near-term growth outlook are tilted to the downside (Annex III). The economy could face headwinds from recurrent commodity price volatility, and new supply shocks, which may necessitate tighter monetary policy to anchor inflation expectations. An escalation of geopolitical tensions or regional conflicts could disrupt trade, remittances, FDI, and financial flows. Growth could also be weaker than expected if the monetary policy stance in advanced economies turns out to be too tight for longer, causing capital outflows, and tighter financial conditions. Risks could also come from a slowdown in major economies, with adverse spillovers through trade and financial channels. Major natural disasters or extreme climate events could disrupt economic activity, cause loss of life, and affect sentiment, resulting in higher fiscal expenditure. The pickup in private domestic demand may be weaker than projected if the reform momentum stalls or payoffs from reforms are lower. On the upside, private investment through PPPs could accelerate faster than anticipated and inward FDI could be higher, due to a faster-than-expected global recovery, easing of global financial conditions, or stronger-than-projected reform momentum.

12. Risks to the inflation outlook have receded but remain to the upside. Non-food commodity prices were more benign than expected, and the impact of El Niño on food and electricity prices was not as high as feared. While food prices continue to pose risks (e.g., due to La Niña), the measures to contain food prices have contributed to lower inflationary risks. However, rising geopolitical tensions, extreme climate events, and recurrent commodity price volatility continue to pose upside risks to inflation.

Authorities' Views

13. The authorities agree that risks to near-term growth are tilted to the downside while inflation risks are to the upside. They recognize important external downside risks to growth in the near term, including from a slowdown in major economies, geopolitical tensions, and possible further disruptions in trade and investment. On the domestic side, they highlight risks from delays in the passage of critical reforms, and weak absorptive capacity of implementing agencies and LGUs for infrastructure projects. With regard to inflation, they see adverse weather events, commodity price shocks stemming from geopolitical events, and adjustments in minimum wages, transport fares, and service utilities as posing upside risks, with overall risks to inflation tilted to the upside for 2025-26. At the same time, the authorities also highlight downside risks stemming from greater-than-projected pass-through of the decline in rice tariffs.

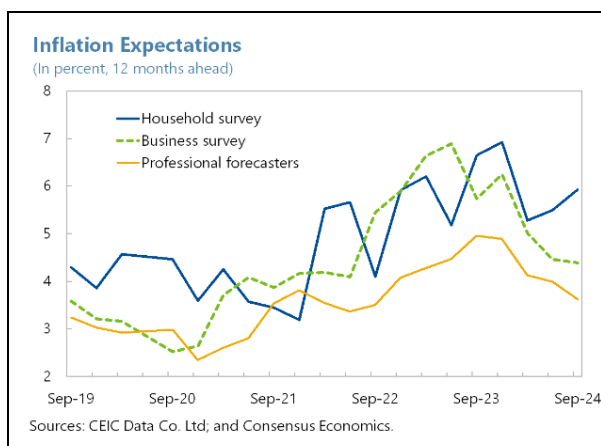
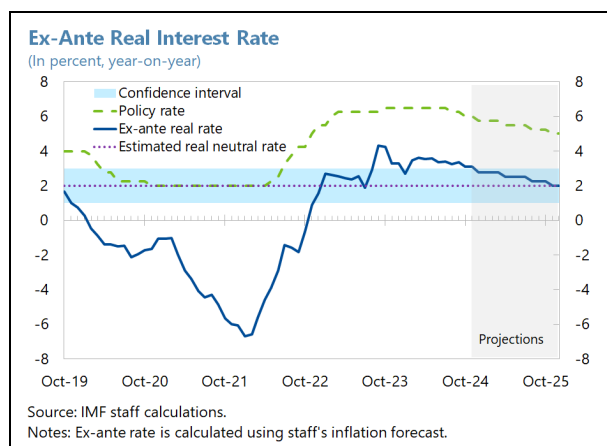
POLICY DISCUSSIONS

The authorities are calibrating fiscal and monetary policies to achieve a soft landing. Continued reduction in the policy rate, and a more gradual pace of fiscal consolidation are appropriate. Sustaining fiscal consolidation over the medium term is critical to replenish fiscal space and should be supported by a concrete and sustainable plan to improve revenue mobilization and implement expenditure reforms. The financial sector remains resilient, while continued vigilance is warranted against vulnerabilities. Reforms to enhance anti-money laundering and combating the financing of terrorism (AML/CFT) effectiveness should be sustained. With macroeconomic policies well calibrated to deliver a balanced growth trajectory and price stability, efforts should focus on enhancing the economy's growth potential through long-term investments in human and physical capital, and structural reforms to raise productivity growth. Policy implementation has been broadly in line with previous staff recommendations (Annex I) and Fund capacity development has been well-aligned with the authorities' policy and reform agenda (Annex VIII).

A. Monetary Policy

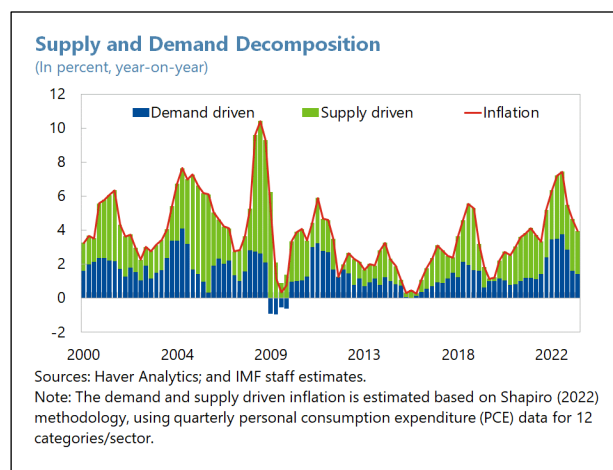
14. The BSP has room to gradually reduce the policy rate and move toward a neutral stance. The monetary policy stance has become appropriately more restrictive since mid-2023 based on alternative measures of the real ex-ante neutral rate.⁷ With inflation and inflation expectations returning to the target, and the opening of a negative output gap, a measured reduction of the policy rate will be appropriate, given upside risks to inflation. Along the declining rate path, the BSP must ensure that its stance continues to anchor inflation and inflation expectations firmly within the target band.

⁷ The ex-ante real rate was 3.3 percent in August, while real neutral rate estimates vary between 1-2 percent (IMF Country Report No. 2018/287) to 2-3 percent (BSP, 2024).



15. A data-dependent approach, and careful communication around policy settings will be important to manage expectations amid uncertainty. With inflation risks tilted to the upside, the BSP must remain vigilant to future shocks and their second-round effects. At the same time, downside risks to growth, including from a weaker-than-expected recovery in domestic demand, could warrant a swifter policy rate reduction. Amidst prevailing uncertainties, effective monetary policy communication will be important to manage expectations and provide more clarity on the BSP's reaction function. Over time, the BSP can consider further enhancing its communication framework by expanding its use of forward guidance in line with IMF technical assistance (TA) advice.

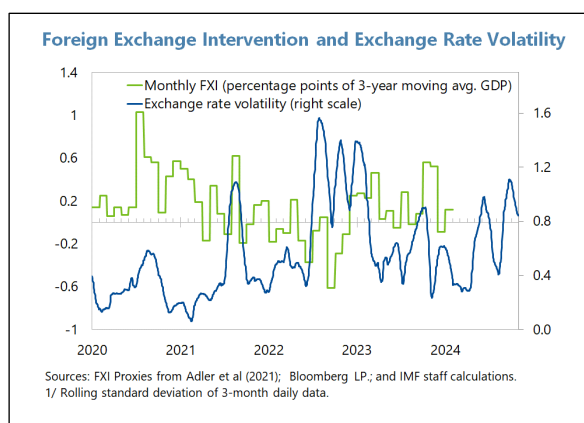
16. Looking ahead, monetary policy may need to adjust to more frequent and severe supply-side shocks. Inflation dynamics in the Philippines have been characterized by a stronger influence of supply factors over demand factors in recent years, in part reflecting the Philippines' high reliance on imports of fuel and food, limited use of price controls, and exposure to adverse climate events.⁸ The frequency, severity, and persistence of adverse supply shocks may increase in the future, for instance due to climate change and rising geoeconomic fragmentation. The BSP will need to be careful in "looking through" them to ensure second-round effects do not lead to a de-anchoring of inflation expectations.



17. The exchange rate should continue to play its role as a shock absorber, while foreign exchange intervention (FXI) may be appropriate under certain circumstances, per the IMF's

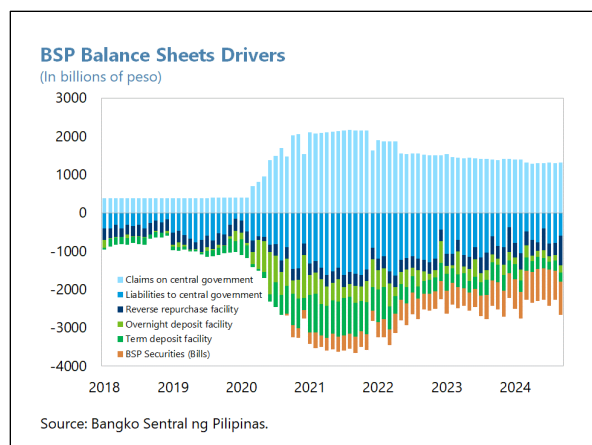
⁸ See the companion Selected Issues Paper, "Inflation in the Philippines: Supply or Demand Driven?"

Integrated Policy Framework (IPF).⁹ Shifting expectations regarding future policy rates in the US have raised peso volatility. The BSP has been appropriately focusing on domestic price stability, allowing the exchange rate to play its role as a shock absorber, and should continue to do so. Given the Philippines' shallow FX markets—the most relevant IPF friction—and the nonlinear impact of exchange rate fluctuations on inflation expectations, FXI can play a role in mitigating risks associated with abrupt exchange rate movements. Nevertheless, deployment of FXI should only be temporary and not a substitute for warranted macroeconomic policy adjustments. Going forward, in considering the optimal response to periods of stress and elevated uncovered interest rate parity (UIP) premia, the BSP should remain cognizant of tradeoffs between using FXI and domestic foreign exchange market deepening.



18. Ensuring coordination across different parts of the BSP's toolkit will also be important.

While total holdings have declined, the BSP retains a substantial portfolio of government securities acquired as part of the COVID-19 response. It has allowed the BSP to move to a variable-rate/variable-amount reverse repurchase (RRP) framework, where the target RRP rate is the policy rate. Going forward, the BSP could usefully communicate a strategy for the size of its balance sheet in normal times, in line with IMF TA advice, to provide more certainty to market participants. The announced reduction in reserve requirements will lead to a welcome decline in financial intermediation costs and better align reserve requirements with regional peers. Changes in the reserve requirement ratio (RRR) need to be factored into the overall monetary policy stance and coordinated with any changes in the size of the BSP balance sheet.



19. Reactivating the interest rate swap (IRS) market and establishing a benchmark yield curve are important steps to further develop the Philippines' fixed income and money markets and improve monetary policy transmission. The authorities' recent initiative to create an enhanced peso IRS market based on the RRP will help businesses and banks hedge local interest rate risk. The fragmentation of the yield curve at the short end with yields on government securities well below those on BSP bills remains an obstacle for accurate valuation of working capital that also

⁹ See Selected Issues Paper, "The Philippines Quantitative Integrated Policy Pilot: Increasing Analysis Scope and Depth", prepared for the Philippines 2023 Article IV consultation.

hampers the development of the IRS and derivatives markets. Coordinated efforts by both the Bureau of the Treasury (BTr) (e.g., by increasing issuance at maturities below 365 days) and the BSP (e.g., by further expanding access to non-banks and ensuring that BSP bills can be used as collateral) are essential to address yield curve fragmentation and improve monetary policy transmission. The recent expansion of the repo market for government securities¹⁰ is an important step in this regard.

Authorities' Views

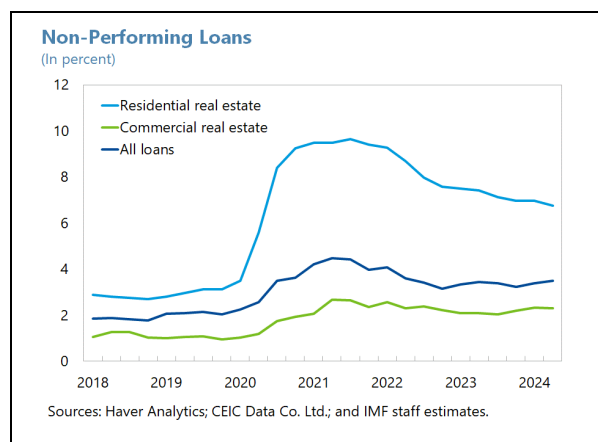
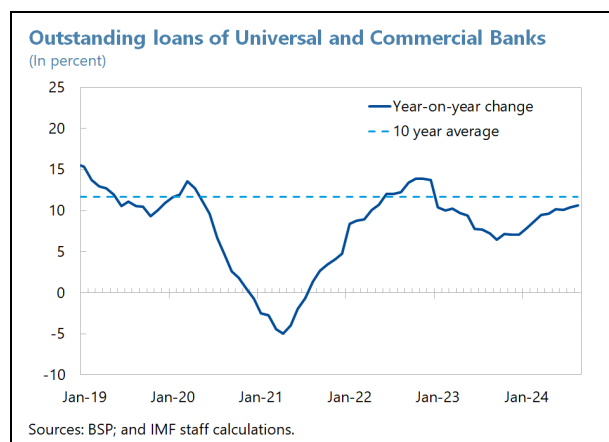
20. The BSP agrees that there is scope to gradually reduce the policy rate towards a neutral stance, while taking a data-dependent approach. The BSP highlights that the impact of supply-side shocks on inflation dynamics may be intensified by climate change and concurs that it needs to be careful in “looking through” supply shocks. The BSP notes that the review of its FXI framework has not resulted in significant changes and reaffirms its policy of intervening only in cases of broad market distress that could potentially have an impact on inflation and inflation expectations. Whenever necessary, the BSP also provides dollar liquidity to the market to ensure that legitimate demand for foreign currency is met. The BSP acknowledges the importance of communicating a strategy for its balance sheet. It aims to maintain sufficient collateral to support its monetary operations and facilitate future RRR reductions and is currently working on a disclosure policy to better communicate the composition of its bond portfolio.

21. The authorities emphasize the importance of establishing a benchmark yield curve to strengthen monetary policy transmission and foster capital market development. In addition to the initiatives announced recently to enhance the Peso Interest Rate Swaps market and enabling a repo market for government securities, the BSP is exploring broadening access to its monetary instruments, including expanding the eligible counterparties, assessing the eligibility of BSP bills as collateral, and enhancing the flexibility in auctions to optimize absorption.

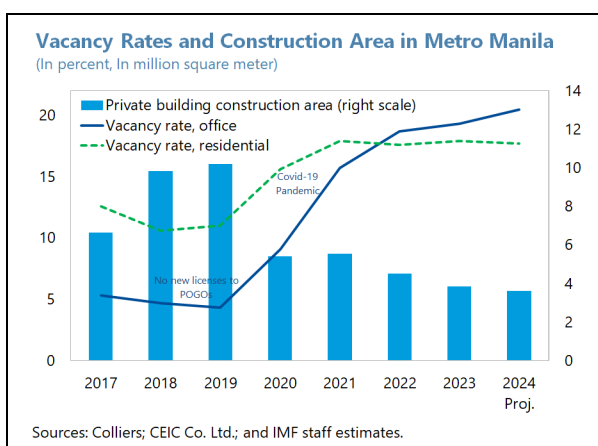
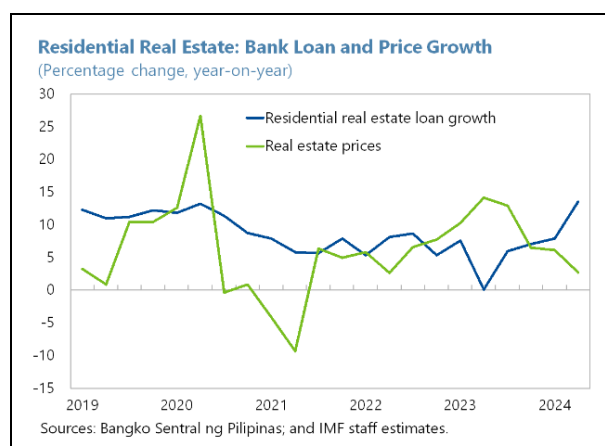
B. Financial Sector Policies

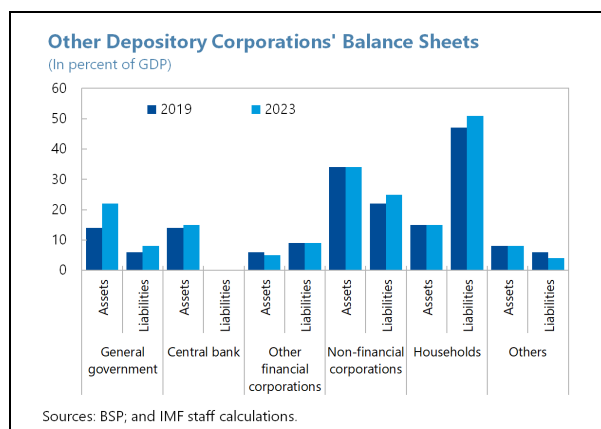
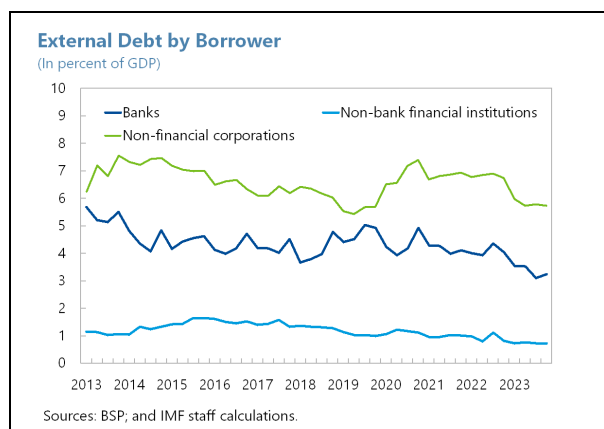
22. Overall systemic risk is moderate and broadly unchanged since last year. The banking system is well-capitalized, liquid, and profitable, supported by generally conservative lending standards and a stable deposit base. Banks have also benefitted from increased net interest income with systemwide non-performing loans (NPLs) contained at 3.5 percent. Credit growth is healthy, and the credit gap is estimated to have closed (Figure 6). Despite the increase in interest rates, residential real estate prices have held up well and credit to the sector continues to grow.

¹⁰ The BSP is working on shifting from “tagging” government securities to banks to full delivery of these securities in line with global market practice. It will allow banks to trade these securities, therefore expanding the market.



23. Pockets of vulnerabilities remain. Parts of the commercial real estate sector have seen persistently high vacancies and falling rents. Residential real estate NPLs stand at 6.8 percent, above pre-pandemic levels. Hence real estate loans, at 20.0 percent of banks' loan books system-wide, require close monitoring as of end-June 2024. The rapid growth in consumption loans (about 25 percent annually), though such credit only represents about 10.6 percent of total bank loans as of end-June 2024, also warrants close monitoring (Figure 6). So do banks' holdings of government securities, which have increased since the pandemic, and their exposures to corporates, including through complex conglomerate structures. External borrowing by corporates has increased slightly in recent years but remains stable as a share of GDP (under 10 percent), though hedging markets remain underdeveloped.





24. The BSP should be ready to adjust macroprudential policy in line with developments in the financial cycle to preempt the build-up of vulnerabilities. As monetary policy eases, and the pick-up in investment materializes, credit demand may increase, requiring vigilance. The BSP could separately move toward a positive neutral level for the countercyclical capital buffer (CCyB) and further develop a CCyB decision framework in parallel. Gradual phase-in of higher capital requirements during the expansion phase of the financial cycle could mitigate excessive credit growth and strengthen banks' capacity to absorb losses in the event of financial stress. Replacing the cap on commercial real estate exposures with a sectoral systemic risk buffer would provide banks with price-based incentives to align their loan portfolios and capital buffers with systemic risk.

25. Progress with strengthening financial supervision and regulation in line with the 2021 Financial Sector Assessment Program (FSAP) and recent Fund TA is welcome but further work remains (Annex IV). Efforts underway to update the bank resolution framework and develop a resolution manual should continue, complemented by the BSP's ongoing efforts to improve its emergency liquidity assistance (ELA) and lender of last resort (LOLR) frameworks. Financial supervision could be further strengthened by formalizing and expanding supervisory colleges for conglomerate supervision, addressing data gaps within and between conglomerates, understanding financial linkages, including through non-bank financial institutions, and developing capacity for regular stress tests. Implementing capital restoration plans for two state-owned banks following their contribution to the Maharlika Investment Corporation's (MIC) start-up capital and exiting regulatory relief as soon as possible is important. While the establishment of the MIC can help address the country's investment needs; it should not come at the cost of a resilient financial system, sound regulatory framework, and level-playing-field.

26. Sustained reforms to enhance AML/CFT effectiveness are critical. In its last plenary in October 2024, the Financial Action Task Force (FATF) made the initial determination that the Philippines has substantially completed its action plan to exit from the grey list of jurisdictions with strategic AML/CFT deficiencies, and that an onsite visit is warranted to verify implementation and the government's sustained commitment. Keeping up with evolving FATF requirements will be important in the context of the next mutual evaluation in 2027. Separately, reforming the bank secrecy law will enhance the BSP's supervisory powers and strengthen AML/CFT effectiveness with respect to AML/CFT supervision and financial investigations.

27. Progress on digitalization, financial inclusion, and capital market development is welcome. The BSP has completed a proof of concept for its proposed wholesale central bank digital currency (CBDC, “Project Agila”). Various reforms are being advanced under the capital market development plan, including broadening the institutional and retail investor base. With the moratorium on digital banks lifting in January 2025, careful supervision of new entrants will be important.

Authorities’ Views

28. The authorities view vulnerabilities in the real estate market as limited given the effectiveness of existing prudential measures in managing bank exposures to the sector as well as active monitoring of the situation. The BSP observes that vacancies created by the exiting Philippine Offshore Gaming Operators (POGOs) will likely be absorbed by traditional residents, and developers possess the flexibility to adjust project completion timelines. They regard the quality of loans as satisfactory with a high NPL coverage ratio. Banks are likewise found to have sufficient capital buffers to withstand a material downturn in the property sector, as confirmed by the BSP’s real estate stress tests. They note that before progressing towards a positive neutral CCyB, they intend to establish a decision framework as a first step, citing that the current high capital buffers in the banking system are adequate in the interim. They aim to submit legislative proposals by mid-2025 to develop an effective resolution framework while the BSP facilitates the establishment of a resolution unit. They recognize the difficulties in obtaining data on conglomerates for supervision and are actively addressing this challenge. They note that the two state-owned banks, despite having capital requirements well-above the regulatory minima, pursue capital-management strategies that strengthen their capital position, such as potential non-payment of dividends to the national government. The authorities are optimistic that the Philippines will exit from the grey list in February 2025 following an FATF onsite visit in January. They remain committed to meeting the evolving FATF requirements in preparation for the next mutual evaluation scheduled for 2027.

C. Fiscal Policy

29. Fiscal consolidation is proceeding in 2024, albeit more moderately than envisaged earlier, but remains broadly appropriate. The fiscal deficit is projected to decline from 6.1 percent of GDP in 2023 to 5.6 percent of GDP in 2024 (based on the GFS definition), implying a 0.8 ppt of GDP consolidation in the primary balance. Spending is higher than in the 2024 Budget of Expenditures and Sources of Financing (BESF), reflecting higher interest payments, capital spending, and use of goods and services, despite lower spending on compensation of employees. Higher spending is partly offset by higher non-tax revenues, including one-off remittances and higher dividend payments. Tax revenues, on the other hand, are lower, in part reflecting the withdrawal of the earlier-planned excise tax measures on some consumption goods due to inflation concerns, and delays in implementing other budgeted tax initiatives (text table).

National Government Fiscal Operations, 2023-2025 (In percent of GDP)

	2023	2024			2025	
	Actual	2024 BESF	2025 BESF	Staff est.	2025 BESF	Staff proj.
Revenues	15.7	16.1	16.0	16.6	15.8	15.8
Tax revenues	14.1	15.3	14.4	14.3	15.1	14.4
Non-tax revenues	1.6	0.7	1.5	2.3	0.7	1.4
Expenditure	21.8	21.0	21.5	22.2	21.4	21.4
Current expenditure	16.9	16.6	16.8	17.1	16.9	17.0
of which:						
Compensation of employees	5.9	6.3	5.5	5.7	5.9	5.9
Use of goods and services	3.8	3.3	3.8	3.8	3.3	3.3
Interest payment	2.6	2.5	2.9	2.9	2.9	2.9
Allotment to LGUs	2.9	2.9	2.9	2.9	3.1	3.2
Capital transfers to LGUs	0.9	0.9	0.9	0.9	1.0	1.0
Capital expenditure	5.0	4.4	4.7	5.0	4.5	4.4
Overall balance 1/	-6.1	-5.0	-5.5	-5.6	-5.6	-5.6
Overall balance (authorities' definition)	-6.2	-5.1	-5.6	-5.6	-5.3	-5.5
Primary balance 1/	-3.5	-2.5	-2.6	-2.7	-2.6	-2.6
Primary balance excluding cash flow impact on VAT for 2023	-3.2	-2.5	-2.6	-2.7	-2.6	-2.6
Primary balance excluding cash flow impact on VAT and transfer to LGUs	0.6	1.3	1.2	1.2	1.5	1.5
<i>Memo items:</i>						
Privatization receipts	0.0	0.0	0.2	0.2	0.4	0.2
Nominal GDP (in billions of peso)	24,319	26,605	26,496	26,432	28,750	28,691

Sources: Philippine authorities; and IMF staff estimates.

Note: BESF=Budget of Expenditures and Sources of Financing.

1/ Based on GFS 2014 definition, privatization receipts are excluded from revenues; equity and net lending are excluded from expenditure; and capital transfers to LGUs are included under current expenditure.

Revenue Measures Included in Recent Budgets (Revenue impact in percent of GDP)

	2025	2026	2027	Status as of November 12, 2024
Tax measures included in both the 2024 and 2025 budgets				
VAT on non-resident digital service providers	0.04	0.07	0.07	Signed into law by the President in October 2024.
Package 4 of the Comprehensive Tax Reform Program (including excise tax on pick-ups)	0.02	0.01	0.01	Approved by the House of Representatives (HOR), and pending at the Senate.
Excise tax on single-use plastics	0.02	0.03	0.02	Approved by the HOR, and pending at the Senate.
Mining fiscal regime	0.02	0.02	0.02	Approved by the HOR, and pending at the Senate.
Motor vehicles road user's tax	0.00	0.03	0.03	Approved by the HOR, and pending at the Senate.
New measures in the 2025 budget				
CREATE MORE (impact on CIT)	0.001	-0.002	-0.004	Signed into law by the President in November 2024.
The withdrawn tax measures included in the 2024 budget				
Excise tax measure on pre-mixed alcoholic beverages	0.001	0.001	NA	
Excise tax measures on sweetened beverages and junk food	0.29	0.31	NA	

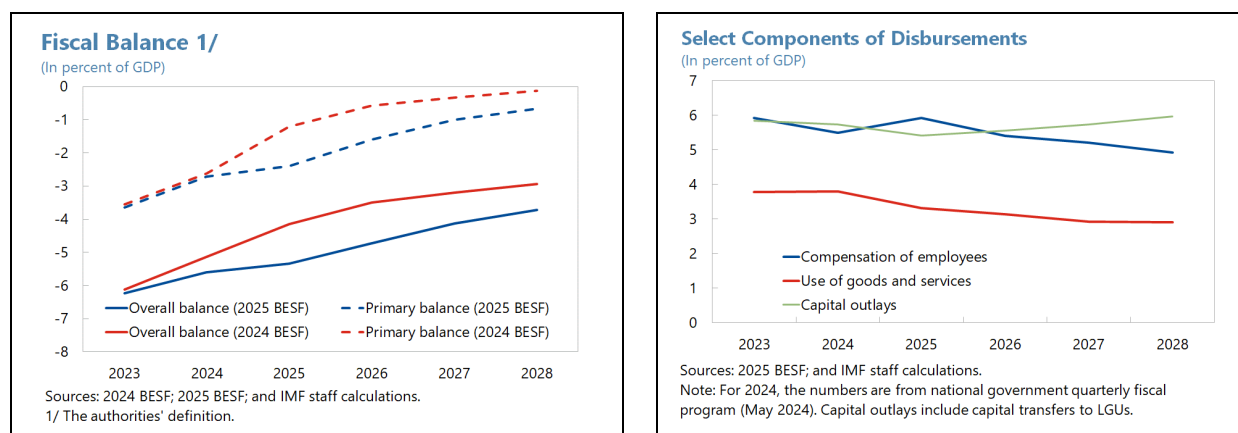
Sources: 2024 BESF; 2025 BESF; and IMF calculations.

Note: IMF staff projections for 2025-2027 GDP are used to convert the authorities' estimates of the revenue impact into percentage of GDP.

30. The broadly neutral fiscal stance in the 2025 budget is appropriate, given the opening of a negative output gap, but the authorities can usefully pursue additional tax measures. The 2025 BESF aims to maintain the fiscal deficit at 5.6 percent of GDP (based on the GFS definition). With the compensation of employees and transfers to LGUs together projected to increase by 0.7 ppt of GDP,¹¹ a significant restraint in spending on goods and services will be needed to meet the budget target for current spending. Staff projects a small increase in tax revenues, reflecting the budget's tax measures, while non-tax revenues are expected to be higher than in the BESF, in line with historical outturns. The overall revenue target is feasible but should be enhanced by additional tax measures—for example, introducing the previously planned excise tax measures (as inflation is

¹¹ Compensation of employees will increase in part due to the new compensation scheme (covering 2024-27) in the public sector, while transfers to LGUs in 2025 are based on national tax collected in 2022.

projected to recede in the baseline)—to ensure the deficit target is met and to create more space for priority spending.



31. Over the medium-term, the authorities should implement a gradual fiscal consolidation, in line with their targets, to help reduce public debt and reinforce fiscal space.

The revised targets under the medium-term fiscal framework (MTFF) plan to reduce the fiscal deficit (under the authorities' definition) from 5.3 percent of GDP in 2025 to 3.7 percent of GDP in 2028, up from an earlier target of 3 percent of GDP, due to concerns over uncertain growth prospects and geopolitical tensions, among others. The revision largely reflects a higher deficit in 2025, with the pace of medium-term consolidation unchanged, at 0.5 ppt of GDP per year. Under the baseline, the deficit is projected to decline in line with the authorities' target, reducing the national government debt to below 60 percent of GDP by 2028, also supported by a favorable interest rate-growth differential. While the Sovereign Risk and Debt Sustainability Framework (SRDSF) indicates low risk of sovereign stress (Annex V), medium-term fiscal consolidation is crucial to stabilize debt, reduce gross financing needs,¹² and enhance fiscal space.

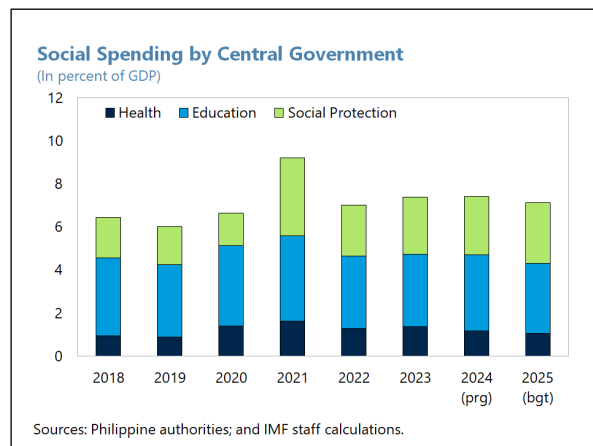
32. The medium-term consolidation should be supported by a sustainable plan to raise tax revenues and implement expenditure reforms. The medium-term consolidation strategy targets a 1.2 ppt of GDP reduction in current spending (excluding capital transfers to LGUs) from 2024 to 2028, mainly on goods and services and compensation of employees, while capital spending would increase to 6 percent of GDP (including capital transfers to LGUs).¹³ Revenues are projected to increase by 0.8 ppt of GDP over the same period, anchored around improving the efficiency of tax collection. Staff's projections assume a similar deficit path, but envision a smaller increase in

¹² Gross financing need has increased to about 12 percent of GDP in 2024 and is projected to average about 9.5 percent of GDP over the medium-term. The financing risk is reduced by the maintenance of a Bond Sinking Fund, with its size designed to match 12 months' worth of redemption for maturing treasury bonds (2.9 percent of GDP at end-2023).

¹³ Capital transfers to LGUs are classified as current spending according to the GFS 2014 definition.

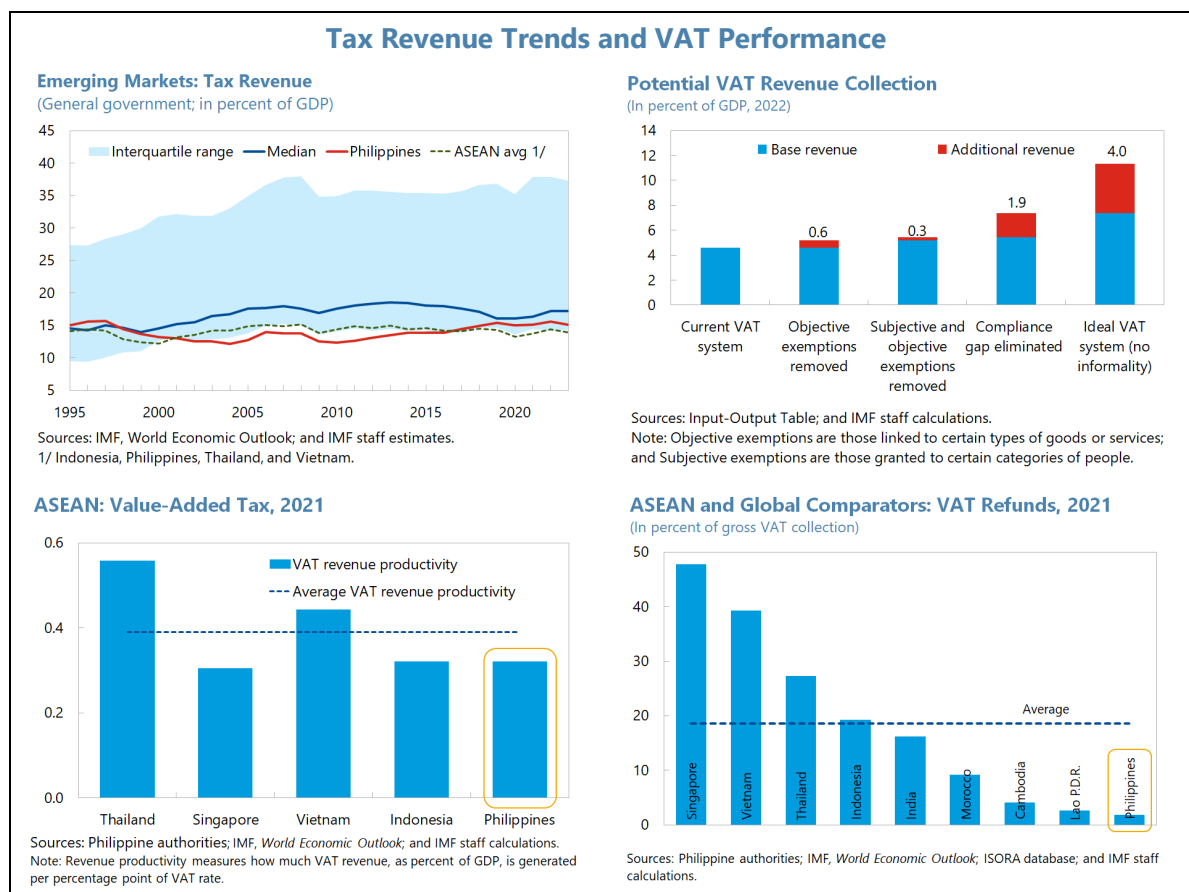
revenues,¹⁴ and see less scope to reduce current spending, which is accommodated by a lower path for capital spending.

- Mobilizing revenue is critical to improve the quality of the medium-term fiscal consolidation and enhance capital and social spending to achieve development goals.* Despite recent progress, the national government's tax-to-GDP ratio (14.1 percent of GDP in 2023) remains low relative to peers. Introduction of a VAT on non-resident digital service providers and a withholding tax on online sellers' income is welcome, but additional tax reforms are needed. They should prioritize: (i) excise taxation; (ii) enhancing VAT efficiency in line with IMF TA advice, including by improving low refund rates, introducing anti-avoidance and anti-evasion measures, and rationalizing zero-rating and exemptions; and (iii) improving tax administration and fiscal governance through the timely implementation of compliance risk management, systematic use and analysis of third-party data, and digitalization (Annex VI). Carbon taxation (with revenues partly used to address distributional implications) could also be introduced in due course, coordinated with continued efforts to expand renewable energy investments and enhance competition.¹⁵
- While the CREATE MORE Act aims to attract investment and improve the ease of doing business, it may increase tax holidays, affecting the predictability and buoyancy of revenues.* The Act introduces additional tax incentives to eligible investments and gives more discretion to investment promotion agencies. Enhancing the regulatory oversight role of the Fiscal Incentives Review Board (FIRB) is welcome but implementing this role may become more complicated after incentives are granted. Preferably, policies should focus on cost-based mechanisms, e.g., expensing of capital spending, rather than expanding tax holidays. In this context, the improved predictability of taxation at the local level under the new law is welcome. Revenue implications of the law should be better quantified and incorporated into the medium-term fiscal program.
- Achieving the planned reduction in current spending should be reinforced by reforms in military and uniformed personnel (MUP) pensions to introduce a contributory system and stop indexing pensions to salaries of current personnel and enhancing capacity at the local level to budget, execute, and report in the decentralization process.*



¹⁴ The smaller increase in staff's revenue projections is primarily due to staff's lower projected tax revenues, which are based on currently announced tax measures and smaller improvement in efficiency of tax collection compared to the authorities' projections.

¹⁵ See Selected Issues Paper, "Addressing Climate Change Mitigation in the Philippines: Role of Carbon Pricing", prepared for the Philippines 2022 Article IV consultation.



33. The MTFF could be further enhanced, including by clarifying the fiscal anchor. The original MTFF endorsed by Congress in 2022 has two key fiscal targets: reducing the national government debt-to-GDP ratio to below 60 percent by 2025 and fiscal deficit to below 3 percent of GDP by 2028. With a new deficit target in the updated projections, the authorities can usefully clarify the medium- to long-term deficit target and the fiscal anchor guiding the MTFF.¹⁶ The authorities can also consider supporting the MTFF by a robust legal framework to make it more binding,¹⁷ and by enhancing its credibility by embedding the fiscal anchor in a formal fiscal rule.¹⁸

34. Efforts to enhance public finance management (PFM) and mitigate fiscal risks should continue. The authorities are advancing PFM reforms, including rolling out the Integrated Financial Management Information System (IFMIS) and making progress on the 2018 Public Investment Management Assessment (PIMA) recommendations.¹⁹ The recent passage of the New Government Procurement Act and finalization of the PFM Reforms Roadmap 2024-2028 are welcome steps. As

¹⁶ See Selected Issues Paper, “The Medium-term Fiscal Framework in the Philippines”, prepared for the Philippines 2023 Article IV consultation.

¹⁷ See IMF How to Notes, “[How to Develop and Implement a Medium-term Fiscal Framework](#)” (2024).

¹⁸ See IMF Departmental Paper, “[Rethinking Fiscal Framework in Asia-Pacific](#)” (2024).

¹⁹ Including working on shifting from an obligation-based to a cash-based budget for multiyear capital projects, making project appraisal and selection more comprehensive, and improving infrastructure maintenance.

PPPs gain importance, careful project selection, supported by value-for-money assessments, and comprehensive fiscal risk reporting, are necessary. While the new PPP Code has strengthened fiscal risk management, a robust gateway process is needed for the implementation stage and for PPPs without government undertakings to control costs and risks. Strengthening oversight of the government-owned and controlled corporations (GOCCs) is also important, by better cross-agency coordination and upgrading financial analysis and reporting, including for PPPs.

Authorities' Views

35. The authorities remain committed to fiscal consolidation and recognize the need to raise additional revenues. The authorities acknowledge the importance of generating additional revenues to support high quality social and development spending and have requested IMF TA on a medium-term revenue strategy. They are open to reconsidering the shelved excise tax measures and improving the efficiency of the VAT system but believe that efforts should prioritize enhancing tax administration. Further, the authorities highlight that priority tax bills are on track to become effective in 2025. The authorities believe that the CREATE MORE Act will attract more investments, while the strengthened quasi-judicial functions of the FIRB will oversee the administration and granting of tax incentives by the investment promotion agencies. They do not see scope to introduce carbon taxation, given the existing taxes on petroleum and energy. They consider removing VAT exemptions politically infeasible.

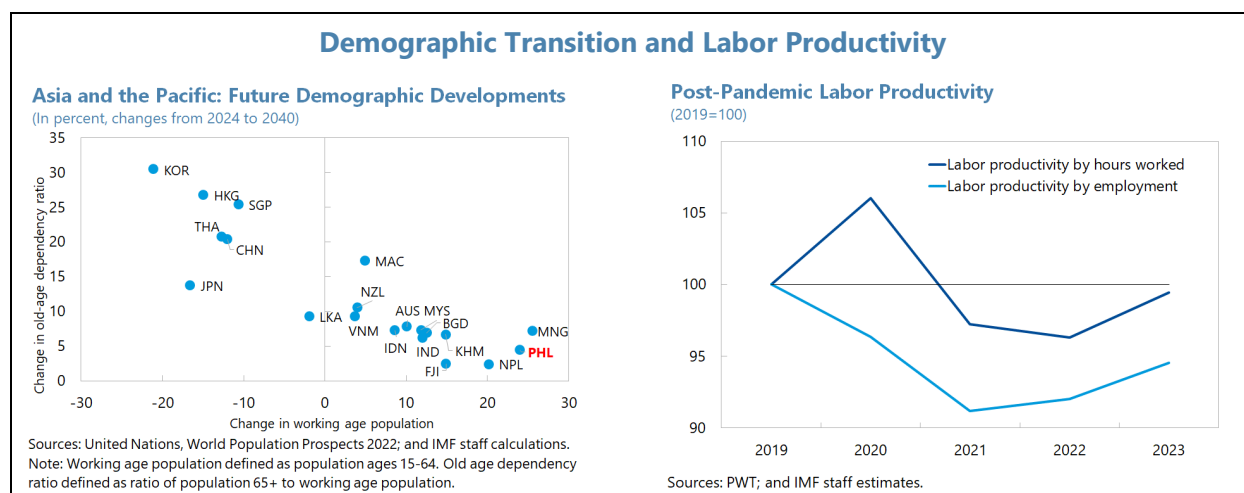
36. The authorities are enforcing expenditure controls and enhancing public financial management. Significant reductions have been made to unprogrammed appropriations in the proposed 2025 budget to reduce the risk of overspending. Should revenues fall short, the authorities will prioritize meeting infrastructure investments targets and social spending. They acknowledge that savings from the current MUP bill proposals are unlikely to be substantial, as the benefits for existing pensioners will continue to be indexed to the salaries of active personnel. Efforts are underway to operationalize the recently enacted New Government Procurement Act and the PFM Reforms Roadmap 2024-2028 this year. The procurement for the IFMIS software is currently in progress, with plans to deploy the system in five departments by end-2024. They also recognize the low utilization of budget appropriation for LGUs, particularly in capital expenditures, and anticipate that devolved functions and services will be completely assumed by LGUs by 2028, following a phased transition.

D. Structural Policies

37. The Philippine economy holds significant potential.²⁰ The country has rich natural resource endowments, an untapped potential in its blue economy (Annex VII), and a significant demographic dividend. Potential growth has been held back post-pandemic, reflecting lower investments in physical and human capital, and low labor productivity, which remains below pre-pandemic trends. Raising the growth potential from the currently projected 6.0-6.3 percent to

²⁰ See the companion Selected Issues Paper, "Potential Growth and Demographic Dividend."

7.0-7.5 percent is feasible, but requires multi-faceted, well-sequenced structural reforms. These reforms, together with enhanced social protection programs,²¹ can also help reduce poverty levels, and address inequality by creating quality jobs and raising productivity.



38. Comprehensive reforms to bridge structural gaps could support higher investment and productivity. The Philippines scores below the median of Association of Southeast Asian Nations (ASEAN) and emerging market peers on several measures of trade and economic openness, business regulation, infrastructure, and governance (Figure 8). Simultaneous implementation of reforms to close these gaps could significantly boost real GDP growth. The initial reform agenda should include:

- Investments in critical infrastructure, including upgrading electrical grids, accelerating renewable energy investments, improving road transportation, logistics, and maritime ports, and supporting digital infrastructure. Such reforms would help crowd in private investment, attract greater FDI, facilitate trade and diversify the economy.
- Improving governance, particularly at the local government level, and opening the telecommunications sector to greater competition. It would be supported by legislating the Progressive Budgeting for Better and Modernized Governance, the National Government Rightsizing Program, and ongoing digitalization of the PFM system, procurement processes, frontline services, and the courts. Efforts to reduce corruption and improve contract and property rights enforcement should also be prioritized.
- Addressing supply-side issues in the agricultural and fisheries sectors, including fragmentation of agricultural lands, low access to credit and insurance, and further reducing tariff and non-tariff barriers, can help improve productivity.

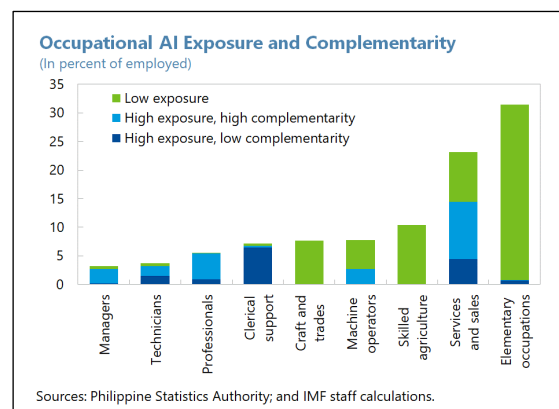
39. Harnessing the demographic dividend will require sustained investments in human capital and improvements in educational outcomes. The Philippines has a window of opportunity

²¹ See Annex, "Social Protection", in the 2023 Article IV Consultation Staff Report.

of about twenty years to take advantage of its young population, requiring strategic investments in nutrition, health, and education.²² Standardized exams point to low educational outcomes at present, with a 90 percent learning poverty rate among primary school-age children. Improving educational outcomes and upskilling of workers will be particularly important to transition to digital and green jobs (Figure 8). Promoting greater female labor force participation, which stood at 53.4 percent in September 2023, versus 74.7 percent for males, can enhance gender equality.

40. Given the Philippines' service-based economy, recent advances in Artificial Intelligence (AI) present both challenges and opportunities. The BPO industry might experience shifts as

AI-driven chatbots and virtual assistants handle more customer service tasks. Staff estimates that 36 percent of jobs in the Philippines are “highly exposed” to AI, with more than half of those highly-exposed also rated as “highly complementary”, where AI can support rather than replace the tasks performed by the worker.²³ The remaining low-complementarity jobs, at 14 percent of the total workforce, are at risk of being replaced by AI.²⁴ AI exposure varies by gender, with approximately half of all jobs held by women highly exposed, compared to a quarter by men.²⁵ To ensure that the gains from implementing AI are widely shared, the authorities will need to invest in digital infrastructure and education and strengthen the social safety net.



41. Multifaceted actions will be needed to address the impacts of climate change and green the economy. Climate models project that the warming trend observed in the Philippines in recent decades will continue as will the upward trend in heavy precipitation, potentially triggering more frequent flood conditions. While globally coordinated actions can help, climate adaptation remains critical. This includes investments in resilient infrastructure, support for vulnerable households, and adoption of green PFM practices, facilitated by a climate public investment management assessment (C-PIMA). Financing the country's Nationally Determined Contribution (NDC) targets²⁶ would benefit from incentivizing green financing and introducing carbon pricing.

²² World Bank, The Philippines Human Capital Review, Investing in the Early Years to Boost Human Potential, June 2024 [World Bank Document](#).

²³ Highly exposed and highly complementary occupations are defined as those occupations with above-median scores in [Felten et al. \(2021\)](#)'s AI occupational exposure and [Pizzinelli et al. \(2023\)](#)'s complementarity measures respectively.

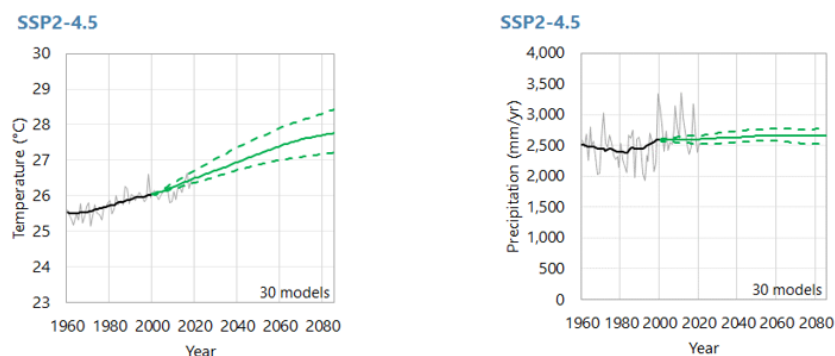
²⁴ See IMF Working Paper, “The Impact of AI on the Labor Market in the Philippines”, forthcoming.

²⁵ It is due to more women being employed as clerical support, service, and sales workers whereas men have a higher share in trades, agriculture, machine operations, and elementary occupations which are less likely to be impacted by AI at this stage.

²⁶ The Philippines' NDC targets cutting greenhouse gas emissions 75 percent below baseline levels in 2030, conditional on external support. Accordingly, the authorities aim to increase the share of renewables in the energy mix from 22 percent currently to 35 percent by 2030 and 50 percent by 2040.

Additional financial support from development partners and the private sector is essential to achieve the authorities' adaptation and mitigation objectives.

Historical and Simulated Annual Average Temperature and Total Annual Precipitations



Source: FADCP Climate Dataset (Massetti and Tagklis, 2024), using CRU data (Harris et al., 2020), and CMIP6.

Notes: The grey lines describe historical mean annual precipitation based on observations (CRU). The black line describes the 30-year moving average of historical data centered around each 30-year period. Colored lines represent the median and the 80 percent range of CMIP6 ensemble precipitation anomalies (10th and 90th percentiles) added to the CRU value (thick black line in the year 2000). SSP2-4.5 represents continuation of present trends.

Authorities' Views

42. The authorities concur that skills gaps, including those related to AI, and the high cost of power are the biggest bottlenecks to greater private sector investment. They hope that joint efforts between the private sector and government agencies to modernize education curriculums, along with greater training for teachers at all levels and use of digitalization, will improve education outcomes. Various government efforts, including the National AI Strategy Roadmap 2.0, and private sector partnerships to support upskilling workers, are expected to soften negative impacts related to the widespread adoption of AI. With regard to the power sector, the authorities acknowledge that structural factors related to the transmission grid and grid connection are pushing up the cost of power. Furthermore, these impediments are significantly slowing growth in the renewable energy generation sector. They hope that strategic investments by the recently created MIC in the energy sector, set to begin by end-2024, will help alleviate some of the existing market failures.

43. The authorities' efforts to address climate change will focus on the implementation of the recently published 2023-2050 National Adaptation Plan. The plan covers five cross-sectoral strategies: (i) strengthening infrastructure resilience; (ii) safeguarding livelihoods; (iii) empowering local governments and communities to take adaptation action; (iv) mainstreaming integrated adaptation governance; and (v) scaling up nature-based solutions. The Philippines was selected as the host country for the Board of the Loss and Damage Fund, and the authorities are working closely with their development partners, including to develop natural disaster insurance mechanisms and mobilize climate financing. The authorities note that prior to the potential exploration of carbon taxation, there is a need to reduce the cost of power through grid investments and reforms promoting greater competition in the energy sector.

STAFF APPRAISAL

44. The authorities have handled the challenges arising from multiple external headwinds well with wide-ranging plans for high and inclusive growth. Growth has been resilient, despite external shocks and an unprecedented tightening in global monetary conditions. Following a sharp increase in inflation in 2022, as in other countries, the authorities promptly adjusted the policy rate, and initiated gradual fiscal consolidation. Several key reforms have been introduced to spur investment and promote exports.

45. Growth is expected to pick up modestly in 2024-25 while inflation should remain within the BSP's target range. Growth will be supported by an acceleration in consumption as food prices ease and by an increase in investment sustained by continued emphasis on public investment and more accommodative financial conditions. The 2023 external sector position is assessed to be broadly in line with the level implied by the fundamentals and desirable policies. Risks to the near-term growth outlook are tilted to the downside, including external risks such as recurrent commodity price volatility and escalation of geopolitical tensions, and domestic risks related to lower-than-expected payoffs from reforms. New supply shocks and recurring commodity price volatility represent upside inflation risks.

46. The BSP has room to ease the policy rate gradually towards a neutral stance. With inflation and inflation expectations returning towards target and the output gap turning negative, a continued gradual reduction in the policy rate is appropriate. A data-dependent approach and careful communication will be important to manage expectations amid uncertainty and more frequent supply-side shocks. The exchange rate should continue to play its role as a shock absorber, while FXI may be appropriate under certain circumstances. Establishing a credible yield curve is important to develop the fixed-income market and improve monetary policy transmission.

47. Systemic risks within the financial system are moderate, but pockets of vulnerabilities remain. The banking system has sufficient liquidity and capital buffers, and NPLs are low. However, parts of the commercial real estate sector have seen persistently high vacancies and falling rents, and non-performing housing loans remain elevated. The rapid growth in consumer loans warrants close monitoring. The BSP should be ready to adjust macroprudential policy in line with developments in the financial cycle to mitigate the build-up of vulnerabilities and move toward a positive neutral level for the CCyB. Its capacity to assess financial stability risks and resolve troubled financial institutions should also be strengthened.

48. The authorities have made significant progress in addressing outstanding AML/CFT issues, which should continue. The FATF's initial determination that the Philippines has substantially completed its action plan is welcome. Going forward, keeping up with evolving FATF requirements will be important in the context of the next mutual evaluation in 2027. Reforming the bank secrecy law will strengthen AML/CFT effectiveness and enhance the BSP's supervisory powers.

49. The more gradual pace of consolidation in the revised fiscal program is appropriate and should be supported by a concrete and sustainable plan to raise tax revenues and implement expenditure reforms. The 2025 budget proposes a broadly neutral fiscal stance, which can help mitigate downside risks to growth, but additional tax measures should be considered to create more space for spending in priority areas. Tax reforms could prioritize implementing previously planned excise tax measures, enhancing VAT efficiency, improving tax administration, and ensuring effective control of tax incentives. Efforts should also focus on reforming the MUP pension system, improving expenditure efficiency, and effectively managing fiscal risks.

50. The Philippine economy holds significant potential with its abundant natural resources, untapped blue economy, and a sizable demographic dividend. Unlocking the medium-term growth potential will crucially depend on comprehensive and well-sequenced structural reforms. These reforms, coupled with strengthened social protection programs, should aim to boost job creation, enhance productivity, increase resilience to climate change, and reduce poverty and inequality. Priority areas include upgrading infrastructure, making significant investments in healthcare and education, addressing land fragmentation and low productivity in the agricultural sector, and enhancing governance. In this context, digitalization provides an important opportunity to improve access to quality education, promote financial inclusion, and enhance public spending efficiency.

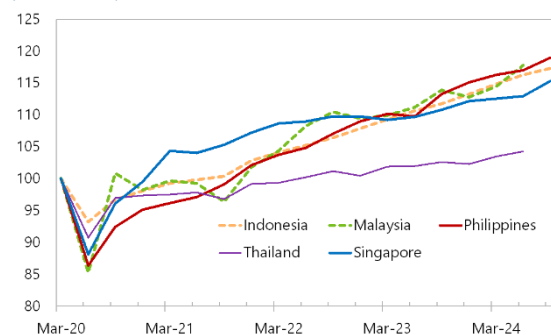
51. It is expected that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Philippines: Drivers of Growth

Growth in the Philippines continues to outpace most ASEAN peers,...

Real GDP Level

(2020 Q1 = 100)

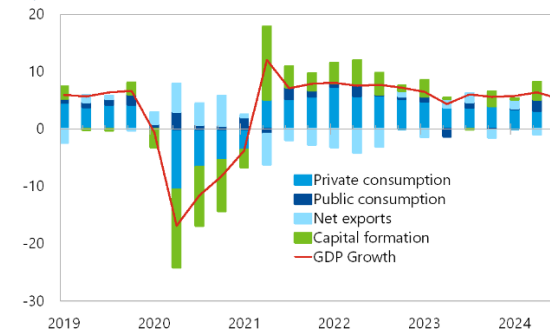


Sources: Haver Analytics; and IMF staff calculations.

...while private consumption continues to be the most important growth driver, it has been softening.

Contribution to Growth

(In percent)

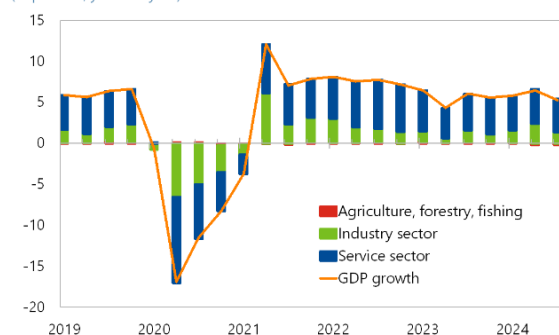


Sources: Haver Analytics; and IMF staff calculations.

The service sector remains the primary growth driver...

Contribution to Growth, Production Side

(In percent, year-on-year)

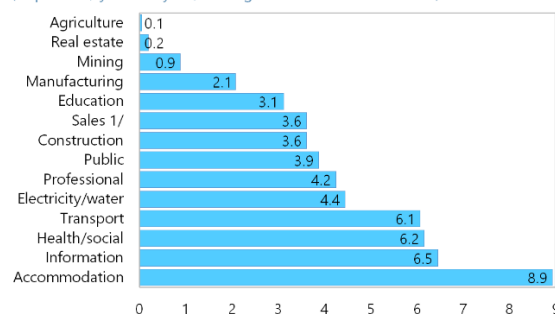


Sources: Haver Analytics; and IMF staff estimates.

... with contact-intensive industries (e.g., accommodation, financial, and information) continuing to grow at robust rates.

Sectoral Growth Rates

(In percent, year-on-year, average of 2020:Q2 to 2024:Q3)



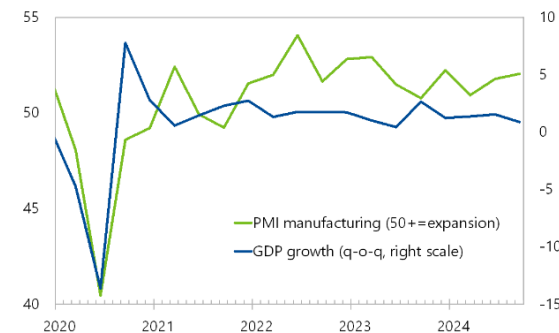
Sources: Haver Analytics; and IMF staff estimates.

1/ Wholesale and retail trade, repair of motor vehicles and motorcycles.

Manufacturing PMI has remained relatively strong.

Growth and Purchasing Manager Index

(Seasonally adjusted)

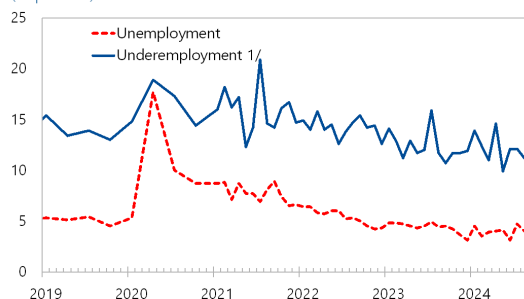


Sources: Haver Analytics; and IMF staff estimates.

Labor market remains strong with a historically low unemployment rate despite a rise in the underemployment rate.

Unemployment and Underemployment Rate

(In percent)



Source: Philippine Statistics Authority.

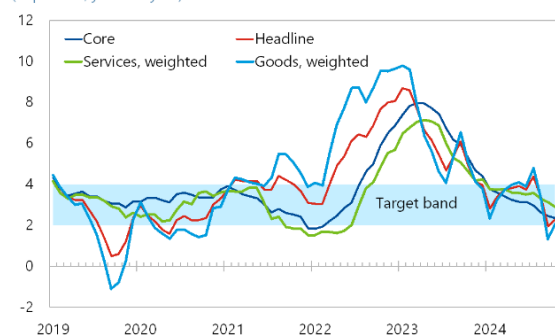
1/ Employed persons who want additional hours of work in their present job, or to have additional job, or to have a new job with longer working hours.

Figure 2. Philippines: Inflation Dynamics

Inflation remained within the BSP's target band in 2024...

Consumer Price Inflation

(In percent, year-on-year)

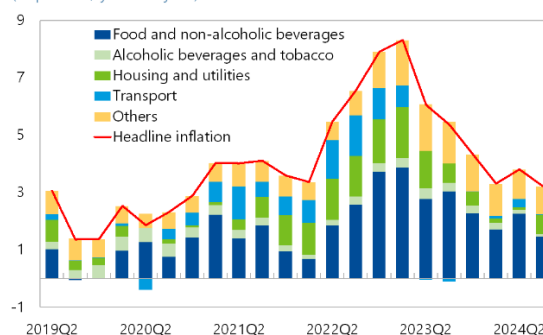


Sources: Haver Analytics; and IMF staff estimates.

...mainly due to easing housing, transport, and food prices...

Contribution to Inflation

(In percent, year-on-year)

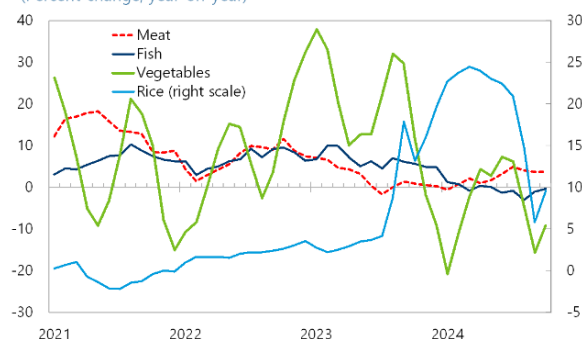


Sources: Haver Analytics; and IMF staff estimates.

...though rice prices remained elevated through the first half of 2024.

Key Food Prices

(Percent change, year-on-year)

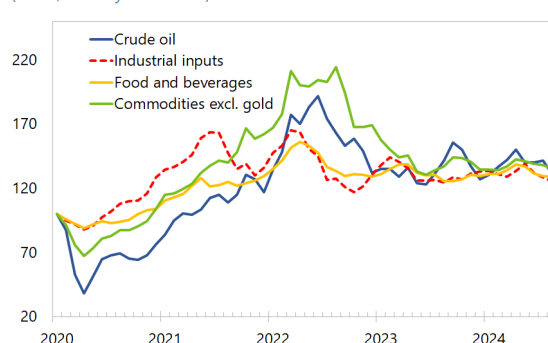


Sources: Haver Analytics; and IMF staff estimates.

Commodity prices have remained mostly flat in 2024.

Global Prices

(Index, January 2020=100)

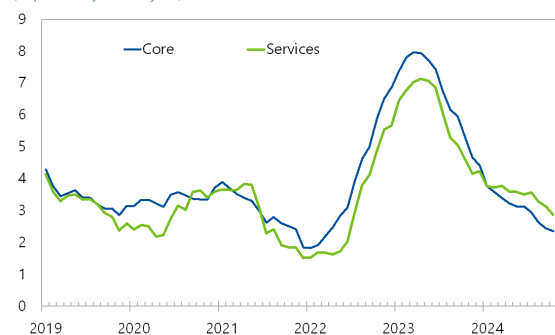


Sources: IMF, Global Commodity Prices; IMF staff estimates.

Core inflation also eased in 2024.

Core and Service Inflation

(In percent, year-on-year)

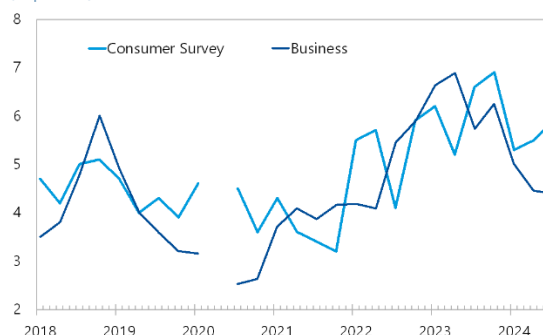


Sources: Haver Analytics; and IMF staff estimates.

Short-term inflation expectations decelerated in the first half of 2024.

Inflation Expectations Next 12 Months

(In percent)



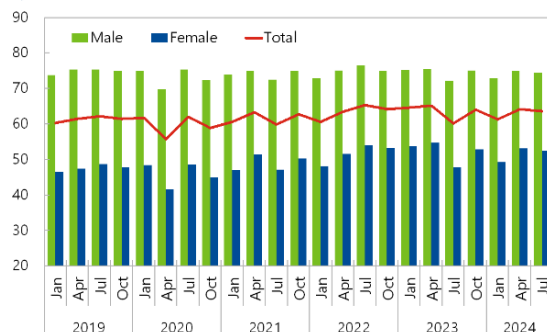
Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

Figure 3. Philippines: Labor Market Developments

Labor force participation rate, in particular for women, remains well above pre-pandemic levels.

Labor Force Participation Rate by Sex

(In percent)

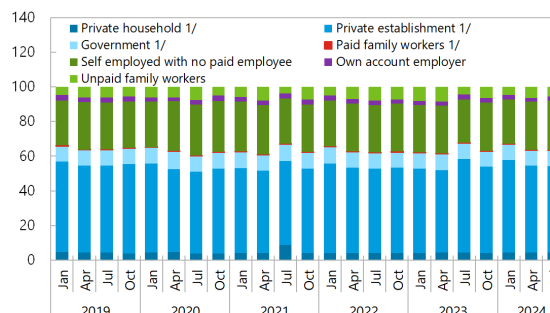


Sources: Philippine Statistics Authority; and IMF staff calculations.

A large share of the population is in non-salaried position.

Employed Persons by Class of Workers

(In percent)

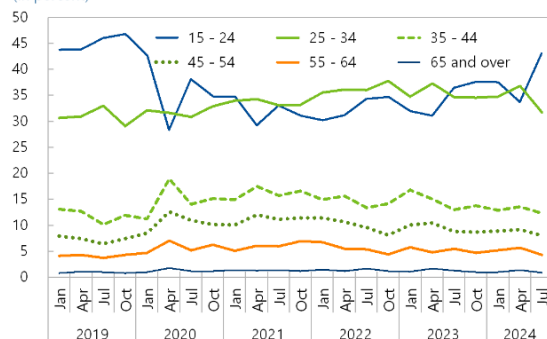


Sources: Philippine Statistics Authority; and IMF staff calculations.
1/ Wage and salary workers.

Unemployment rates are largely driven by young workers...

Unemployed Persons by Age Group

(In percent)

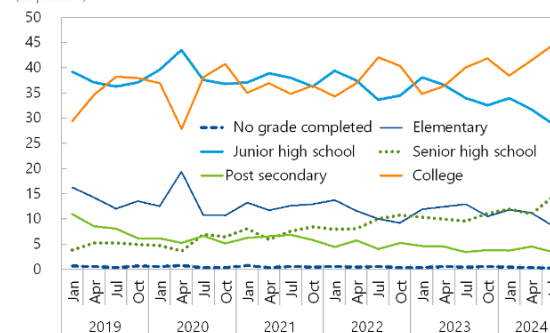


Sources: Philippine Statistics Authority; and IMF staff calculations.

...and those with higher levels of education.

Unemployed Persons by Highest Grade Completed

(In person)

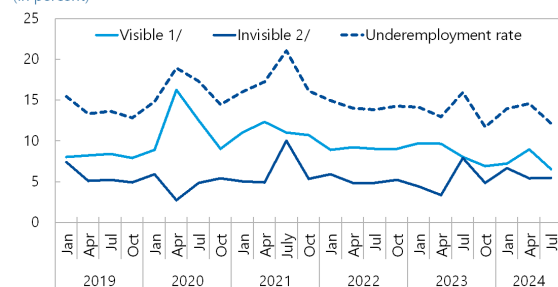


Sources: Philippine Statistics Authority; and IMF staff calculations.

Visible underemployment rose in the first half of 2024...

Visible and Invisible Underemployment Rate

(In percent)



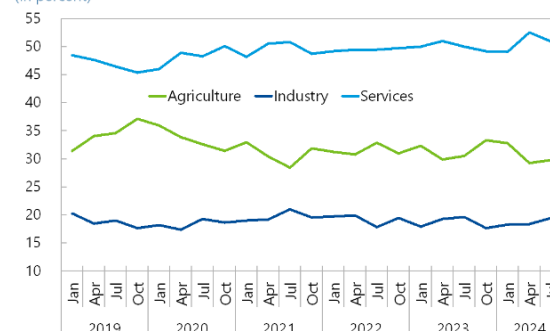
Source: Philippine Statistics Authority.

1/ Those who work for less than 40 hours during the reference period and want additional hours of work.
2/ Those working 40 hours or more per week but still want an additional job.

...as did underemployment in the services sector.

Underemployed Persons by Sector

(In percent)



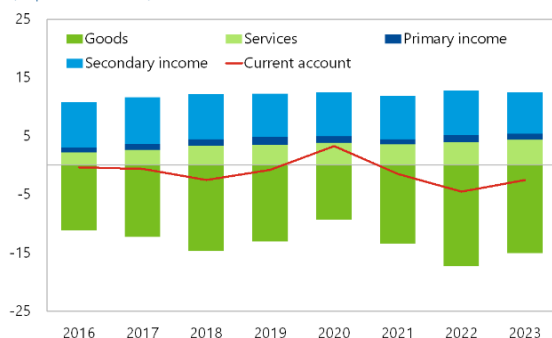
Sources: Philippine Statistics Authority; and IMF staff calculations.

Figure 4. Philippines: External Sector

The current account deficit narrowed in 2023...

Current Account Balance

(In percent of GDP)

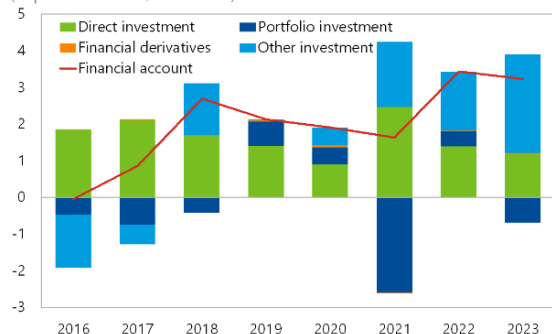


Sources: Haver Analytics; IMF staff estimates.

Net inflows of FDI decreased, while net inflows of other investment increased in 2023.

Capital Flows

(In percent of GDP, + = inflow)

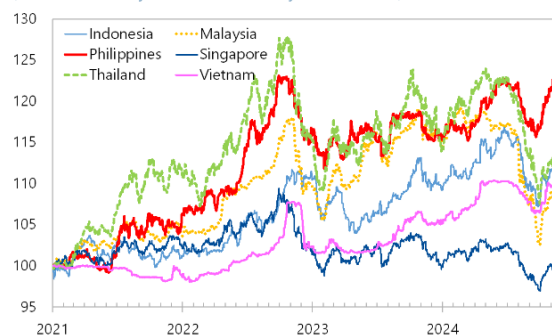


Sources: Haver Analytics; IMF staff estimate.

The exchange rate has fluctuated in 2024 between depreciating and appreciating trends, amid shifting expectations around the US monetary policy path.

Exchange Rates

(National currency/US\$, index, January 1, 2021 = 100)

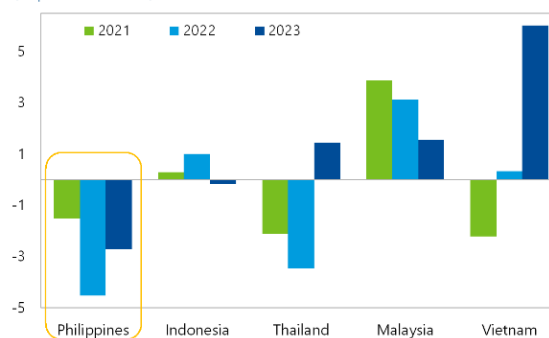


Sources: Bloomberg Data L.P.; and IMF staff estimates.

...but remained larger than in its regional peers.

Current Account Balance

(In percent of GDP)

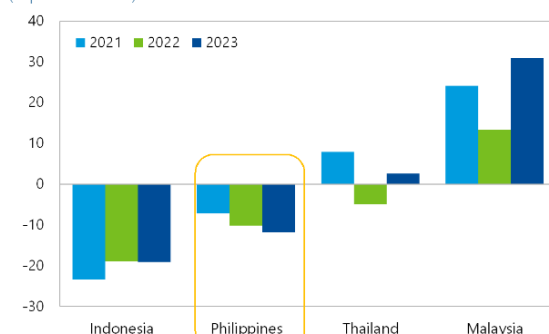


Sources: Haver Analytics; IMF staff estimates.

NIIP decreased further partly due to financing the current account deficit.

Net International Investment Position

(In percent of GDP)

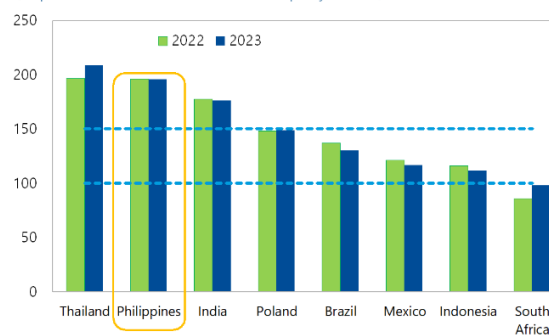


Sources: Haver Analytics; and IMF staff estimates.

The Philippines' foreign reserve increased slightly to US\$104 billion at end-2023 and was well above the IMF's reserve adequacy metric.

Gross International Reserves

(In percent of the IMF's Reserve Adequacy Metric)



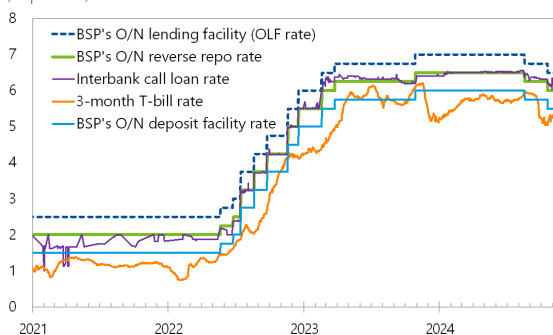
Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

Figure 5. Philippines: Monetary and Financial Conditions

The interbank and short-term T-bill rates have largely followed the BSP's rates.

Policy, Interbank, and T-Bill Rates

(In percent)

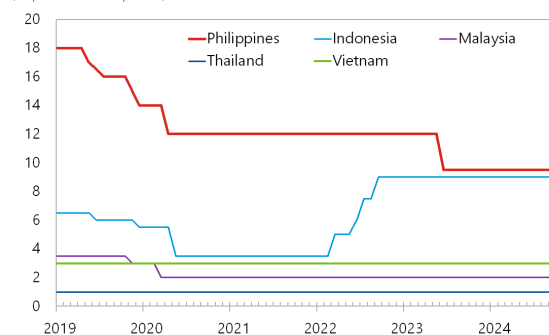


Sources: Bloomberg L.P.; CEIC Co. Ltd.; and Haver Analytics.

The BSP reduced the reserve requirement ratio to 7 percent in September 2024, but it remains one of the highest in the region.

Reserve Requirements

(In percent of deposits)

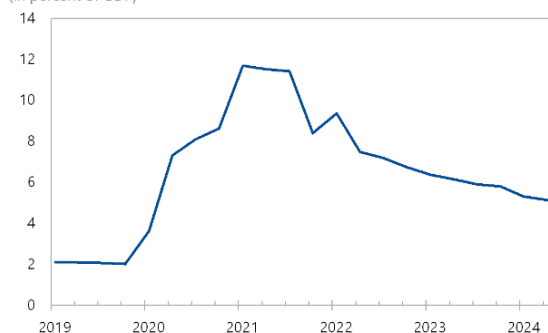


Source: Authorities data.

The BSP is letting its government securities portfolio run off.

BSP's Credit to Government

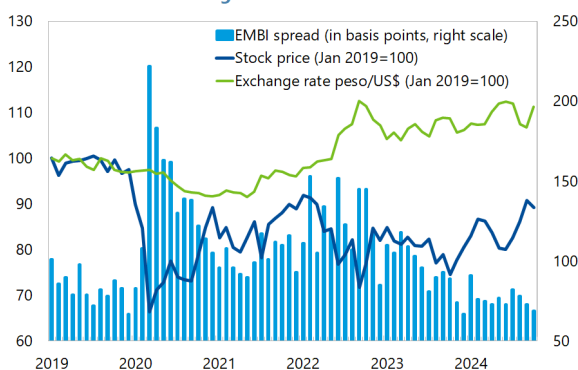
(In percent of GDP)



Sources: Haver Analytics; and IMF staff calculations.

The stock market has not yet recovered to pre-pandemic levels, the exchange rate had come close to its last low in 2022, and EMBI spreads are compressed.

Asset Prices and Exchange Rate

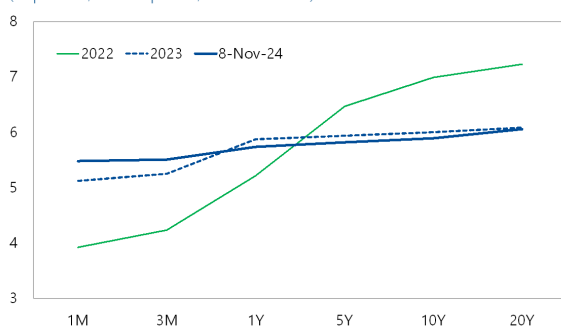


Sources: Haver Analytics; Bloomberg LP; and IMF staff estimates.

The yield curve has flattened...

Government Bond Yields

(In percent, end of period, reference rate)

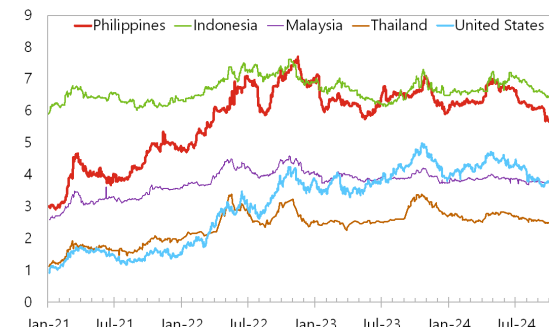


Sources: Bloomberg L.P.; and IMF staff estimates.

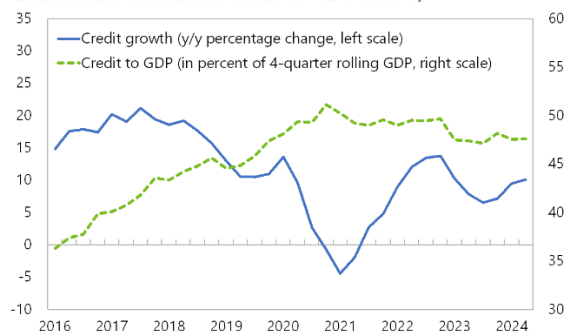
...as the long end of the curve has declined.

10-year Domestic Government Bond Yields

(In percent)

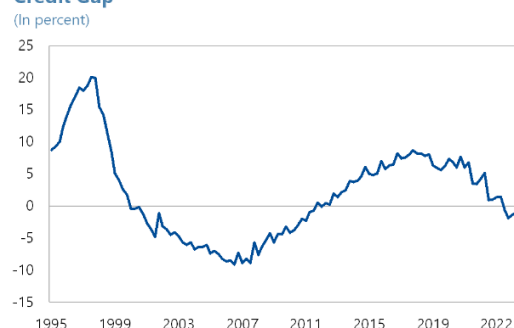


Source: Haver Analytics.

Figure 6. Philippines: Macrofinancial Linkages*Credit growth has picked up recently...***Bank Credit Growth and Credit-to-GDP Ratio 1/**

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

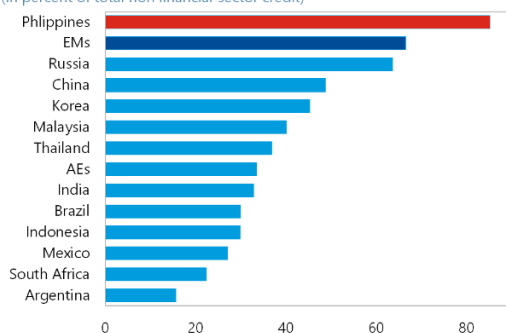
1/ Loans by universal and commercial banks, net of reverse repos.

*...though the credit gap is closed.***Credit Gap**

Source: IMF, Systemic Risk Tracker.

*Corporate loans outstanding account for over 80 percent of total loans...***Credit to Non-financial Corporates, 2023**

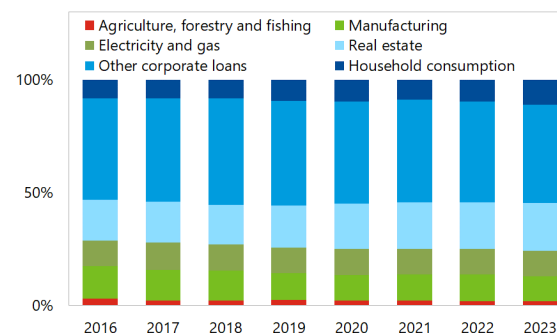
(In percent of total non financial sector credit)



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

*... with real estate accounting for a large share.***Bank Loans by Sector**

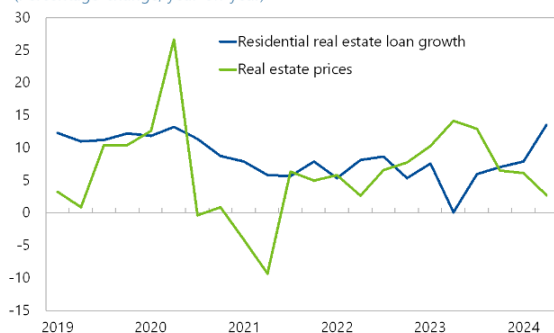
(Share of total)



Sources: Haver Analytics; and IMF staff estimates.

*Residential real estate prices and loans have weathered the increase in interest rates...***Residential Real Estate: Bank Loan and Price Growth**

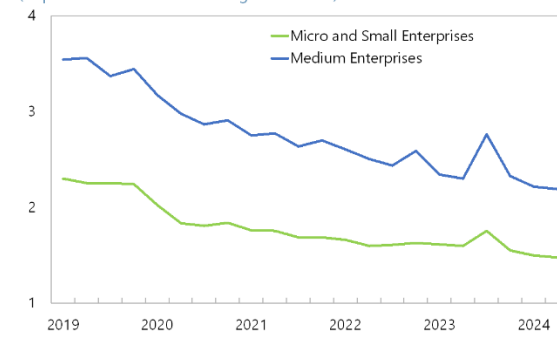
(Percentage change, year-on-year)



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

*...but the share of bank loans to micro, small, and medium enterprises is still lower than pre-pandemic.***Loans of All Banks to Micro-Small and Medium Enterprises**

(In percent of total outstanding bank loans)

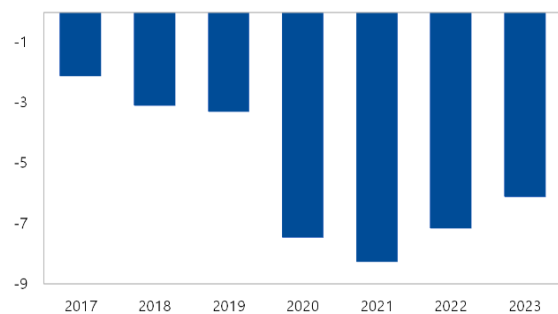


Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

Figure 7. Philippines: Fiscal Developments

The overall budget deficit narrowed in 2023...

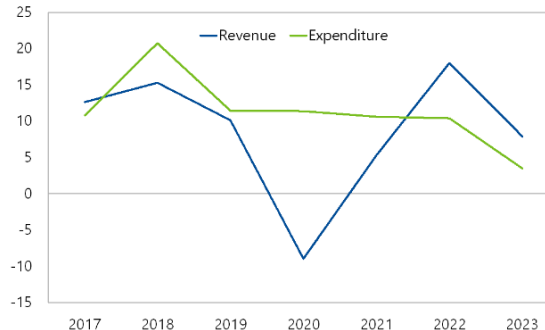
National Government Overall Balance 1/
(In percent of GDP)



Sources: Haver Analytics; and IMF staff estimates.
1/ Excluding privatization receipts, equity, and net lending.

... reflecting the faster deceleration in expenditure growth.

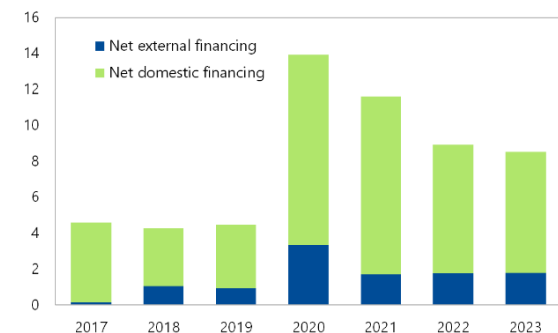
National Government Revenue and Expenditure Growth
(In percent, year-on-year)



Sources: Haver Analytics; and IMF staff estimates.

Fiscal financing has increased since the pandemic...

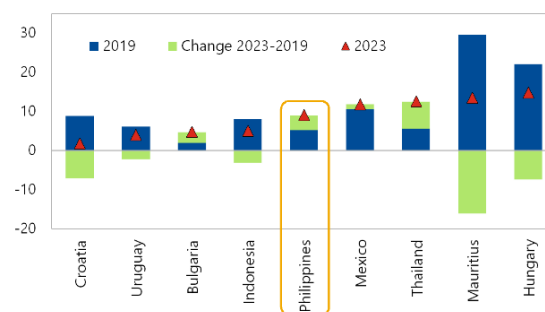
National Government Financing by Sources
(In percent of GDP, net of amortization)



Sources: Bureau of Treasury; and IMF staff estimates.

...and is broadly in line with most countries with similar credit rating.

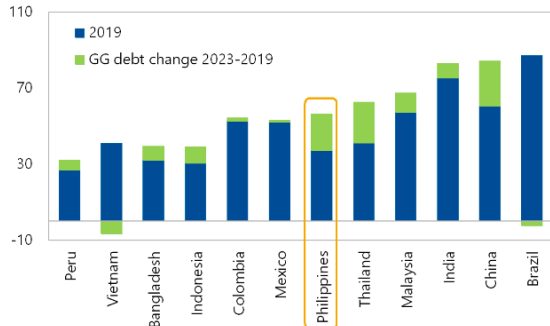
Government Financing Needs
(In percent of GDP)



Source: IMF staff estimates.

Nevertheless, its end-2023 debt-to-GDP ratio is higher than pre-pandemic level.

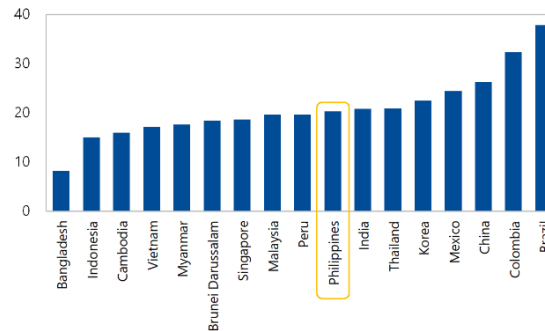
General Government Debt
(In percent of GDP)



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

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

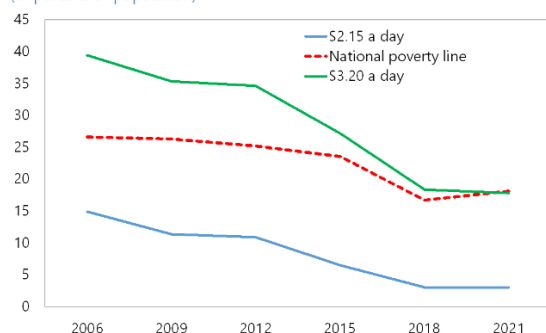
General Government Revenue, 2023
(In percent of GDP)



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

Figure 8. Philippines: Poverty and Business Environment*Poverty was falling before the pandemic...***Poverty Rate**

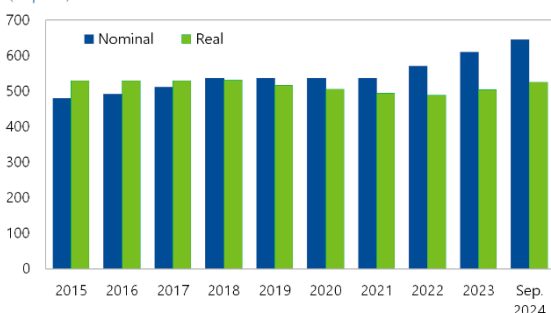
(In percent of population)



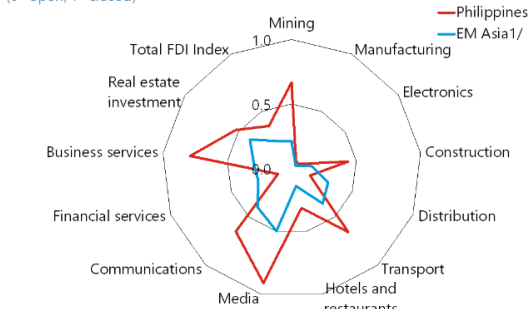
Source: World Bank, World Development Indicators.

*...partly due to wage increases in those years.***Legislated Daily Wage Rate: Non-Agricultural Workers 1/**

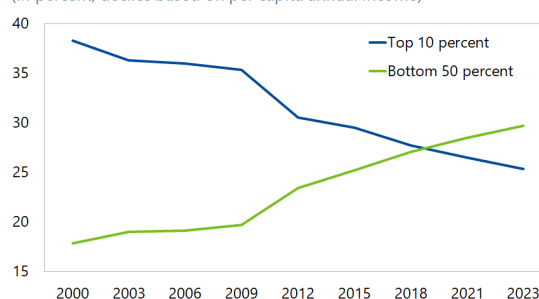
(In peso)

Source: Philippines' Department of Labor and Employment via Haver Analytics.
1/ For the National Capital Region.*Regulatory barriers remain high for inward FDI...***FDI Regulatory Restriction 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.*...while inequality improved markedly...***Income Share Held by Top 10 and Bottom 50 Percent**

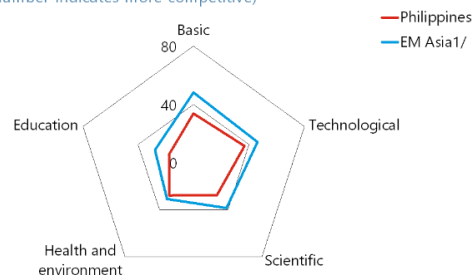
(In percent, deciles based on per capita annual income)



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

*Infrastructure gaps have contributed to a lack of high-quality non-agriculture jobs outside the national capital region***Global Competitiveness in Infrastructure, 2024**

(Higher number indicates more competitive)

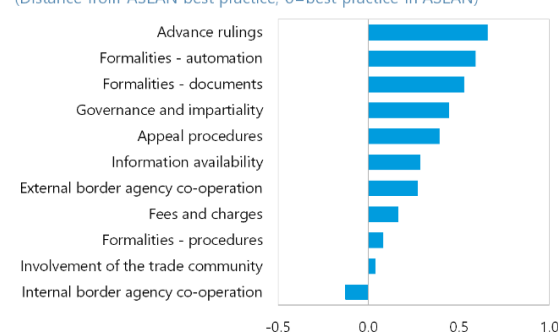


Sources: International Institute for Management Development, World Competitiveness Yearbook 2024.

1/ Average of India, Indonesia, Malaysia, Thailand.

*...and international trade.***Procedural Barriers to Trade**

(Distance from ASEAN best practice, 0=best practice in ASEAN)



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

Table 1. Philippines: Selected Economic Indicators, 2021–26

Demographic: Population (2023): 111.9 million; Life expectancy at birth (2022): 72.2

Poverty in percent of population: Below \$2.15 a day (2021): 3; Below the national poverty line (2023): 15.5.

Inequality (2021, income shares): Top 10 percent: 32.5; Bottom 20 percent: 6.5.

IMF quota: SDR 2,042.9 million.

Main export products: electronics, mineral, agro-based products, equipments, and chemicals.

	2021	2022	2023	2024	2025	2026
				Est.	Proj.	Proj.
(Annual percentage change, unless otherwise indicated)						
National account						
Real GDP	5.7	7.6	5.5	5.8	6.1	6.3
Consumption	4.7	7.7	4.7	5.4	5.8	6.0
Private	4.2	8.3	5.6	5.2	6.3	6.5
Public	7.2	5.1	0.6	6.4	3.0	3.3
Gross fixed capital formation	9.8	9.8	8.2	8.3	8.6	8.9
Final domestic demand	5.7	8.1	5.4	6.0	6.4	6.6
Net exports (contribution to growth)	-2.3	-2.2	0.0	-1.0	-1.0	-1.1
Real GDP per capita	4.9	6.7	4.6	4.6	5.0	5.2
Output gap (percent, + = above potential)	-3.5	0.4	0.2	-0.2	-0.1	0.0
Labor market						
Unemployment rate (percent of labor force)	7.8	5.4	4.4	4.0	4.5	4.5
Underemployment rate (percent of employed persons)	15.9	14.2	12.3	...	...	...
Employment	11.7	6.6	2.8	1.6	1.6	1.6
Price						
Consumer prices (period average)	3.9	5.8	6.0	3.2	2.8	3.0
Consumer prices (end of period)	3.1	8.1	3.9	2.6	3.1	3.0
Core consumer prices (period average)	3.0	3.9	6.6	2.9	2.9	2.9
Residential real estate (Q4/Q4)	4.9	7.7	6.5	...	...	...
Money and credit (end of period)						
Overnight reverse repo rate (policy rate)	2.0	5.5	6.5	...	...	...
Claims on private sector (in percent of GDP)	49.9	48.9	48.3	49.3	50.8	52.2
Claims on private sector (yoy growth rate)	3.8	11.1	9.1	11.0	11.9	11.9
Monetary base	5.8	5.1	5.5	7.6	8.5	9.0
Broad money	8.0	8.0	7.4	8.8	8.4	8.6
Public finances (in percent of GDP)						
National government overall balance 1/	-8.3	-7.2	-6.1	-5.6	-5.6	-4.6
Revenue and grants	15.5	16.1	15.7	16.6	15.8	15.8
Total expenditure	23.8	23.2	21.8	22.2	21.4	20.5
National government gross debt	60.4	60.9	60.1	61.2	62.0	61.7
Balance of payments (in percent of GDP)						
Current account balance	-1.5	-4.5	-2.7	-2.0	-1.9	-1.8
FDI, net	-2.5	-1.4	-1.2	-1.2	-1.3	-1.5
Total external debt	27.0	27.5	28.7	28.9	28.5	27.5
Gross reserves						
Gross reserves (US\$ billions)	108.8	96.1	103.8	113.3	115.9	117.5
Gross reserves (percent of short-term debt, remaining maturity)	512.3	381.3	384.7	466.4	443.8	451.3
Memorandum items:						
Nominal GDP (US\$ billions)	394.1	404.4	437.1	469.5	506.0	548.4
Nominal GDP per capita (US\$)	3,580	3,645	3,906	4,148	4,424	4,745
GDP (in billions of pesos)	19,411	22,028	24,319	26,432	28,691	31,260
Real effective exchange rate (2010=100)	111.1	109.3	113.1	...	...	...
Peso per U.S. dollar (period average)	49.3	54.5	55.6	...	...	...

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

1/ IMF definition with privatization receipts, equity, and net lending excluded.

Table 2. Philippines: National Government Cash Accounts, 2021–26

(In percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024 Est.	2025 Proj.	2026 Proj.
Revenue and grants	15.5	16.1	15.7	16.6	15.8	15.8
Tax revenue	14.1	14.6	14.1	14.3	14.4	14.5
Net income and profits	5.4	5.6	5.8	5.9	5.9	6.0
Excises	2.5	2.3	2.1	2.0	2.1	2.1
VAT	3.9	4.6	4.1	4.3	4.4	4.4
Tariffs	0.4	0.4	0.4	0.4	0.4	0.3
Other 1/	1.9	1.6	1.6	1.6	1.6	1.6
Nontax revenue	1.4	1.5	1.6	2.3	1.4	1.3
Expenditure	23.8	23.2	21.8	22.2	21.4	20.5
Current expenditures	19.1	18.6	16.9	17.1	17.0	16.6
Compensation of employees	6.6	6.3	5.9	5.7	5.9	5.6
Use of goods and services	4.5	4.0	3.8	3.8	3.3	3.3
Grants	4.6	5.0	3.8	3.8	4.1	4.1
Subsidies	1.0	0.9	0.7	0.8	0.6	0.6
Interest	2.2	2.3	2.6	2.9	2.9	2.9
Other expenses	0.2	0.1	0.1	0.1	0.1	0.1
Capital expenditure	4.6	4.6	5.0	5.0	4.4	3.9
Balance	-8.3	-7.2	-6.1	-5.6	-5.6	-4.6
Financing	8.3	7.2	6.1	5.6	5.6	4.6
External financing (net)	1.7	1.8	1.8	1.5	1.2	1.2
Domestic financing (net)	7.6	4.7	3.3	4.1	4.3	3.5
Change in cash (negative=accumulation)	-0.7	0.9	1.1	0.0	0.0	0.0
Privatization	0.0	0.0	0.0	0.2	0.2	0.0
Equity	-0.2	-0.1	0.0	-0.1	0.0	0.0
Net lending	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Memorandum items:						
Cyclically-adjusted primary balance 2/	-5.3	-5.0	-3.2	-2.6	-2.6	-1.7
Structural primary balance 2/	-5.2	-5.1	-3.4	-2.8	-2.8	-1.9
Structural primary balance excluding transfers to LGUs	-0.6	-0.1	0.4	1.0	1.3	2.2
Gross financing requirement	13.3	9.8	9.0	12.2	10.1	8.7
National government gross debt 3/	60.4	60.9	60.1	61.2	62.0	61.7
Domestic	42.1	41.8	41.2	42.0	43.0	42.9
External	18.3	19.1	18.9	19.2	19.0	18.8
GDP (in billions of peso)	19,411	22,028	24,319	26,432	28,691	31,260

Sources: Philippine authorities; and IMF staff projections.

1/ Includes other percentage taxes, documentary stamp tax, and non-cash collections.

2/ 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.

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

Table 3. Philippines: General Government Operations, 2021–26 1/

(In percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024 Est.	2025 Proj.	2026 Proj.
Revenue	21.0	20.4	20.3	21.1	20.2	20.1
Taxes	15.1	15.5	15.1	15.3	15.4	15.5
Taxes on income, profits, and capital gains	5.4	5.6	5.8	5.9	5.9	6.0
Taxes on goods and services	7.6	7.9	7.4	7.5	7.6	7.6
Taxes on international trade and transactions	0.4	0.4	0.4	0.4	0.4	0.3
Taxes not elsewhere classified	1.6	1.5	1.5	1.5	1.5	1.6
Social contributions	3.8	2.8	2.8	2.7	2.6	2.5
Grants	0.0	0.0	0.0	0.0	0.0	0.0
Other revenue	2.1	2.1	2.4	3.1	2.2	2.1
Total expenditure	27.2	25.9	24.7	24.9	24.1	23.1
Expense	22.0	20.6	19.2	19.3	19.0	18.5
Compensation of employees 2/	6.6	6.3	5.9	5.7	5.9	5.6
Use of goods and services 2/	4.5	4.0	3.8	3.8	3.3	3.3
Interest	1.8	2.0	2.3	2.6	2.7	2.7
Social security benefits	3.3	2.4	2.3	2.1	2.0	1.9
Expense not elsewhere classified 3/	5.8	5.9	4.9	5.1	5.1	5.1
Net acquisition of nonfinancial assets	5.2	5.3	5.5	5.6	5.1	4.5
Net lending/borrowing	-6.2	-5.5	-4.4	-3.9	-3.9	-3.0
Memorandum items:						
Primary balance	-4.4	-3.5	-2.1	-1.3	-1.2	-0.3
General government gross debt 4/	57.0	57.4	56.5	57.6	58.3	58.1
Domestic	38.7	38.3	37.6	38.4	39.3	39.3
Foreign	18.3	19.1	18.9	19.2	19.0	18.8
GDP (in billions of peso)	19,411	22,028	24,319	26,432	28,691	31,260

Sources: Philippine authorities; and IMF staff projections.

1/ Based on GFSM2014. 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 subsidies and expenditure by the LGUs.

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

Table 4. Philippines: Depository Corporation Survey, 2019–24 1/

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

	2019	2020	2021	2022	2023	2024:Q2
Total						
Net foreign assets	4,858	6,096	6,493	6,265	6,556	6,863
Net domestic assets	10,092	10,149	11,048	12,672	13,784	13,762
Net claims on nonfinancial public sector	2,711	3,444	4,145	4,947	5,582	5,616
Claims on private sector	9,363	9,341	9,694	10,766	11,746	12,194
Net claims on other financial corporations	1,192	1,101	1,183	1,214	1,182	1,176
Broad money	14,950	16,244	17,541	18,937	20,340	20,626
National currency	12,976	14,222	15,343	16,405	17,441	17,491
Foreign currency	1,974	2,023	2,197	2,532	2,899	3,134
Bangko Sentral ng Pilipinas						
Net foreign assets	4,399	5,303	5,574	5,384	5,781	6,194
Net domestic assets	-1,157	-1,901	-1,976	-1,604	-1,790	-2,309
Claims on private sector	0	0	0	0	0	0
Net claims on financial corporations	-734	-1,910	-1,867	-1,788	-1,810	-1,827
Monetary base	3,238	3,402	3,599	3,781	3,989	3,882
Currency in circulation	1,679	2,039	2,176	2,337	2,447	2,315
Other depository corporations liabilities	1,559	1,363	1,422	1,443	1,542	1,567
Other depository corporations						
Net foreign assets	459	793	919	881	775	761
Net domestic assets	13,091	13,720	14,745	16,035	17,447	17,600
Net claims on nonfinancial public sector	2,478	2,698	3,424	3,900	4,552	4,743
Claims on private sector	9,363	9,341	9,694	10,766	11,746	11,856
Net claims on financial corporations	3,771	4,614	4,669	4,489	4,586	4,437
Memorandum items:						
Broad money (percent change, year-on-year)	9.8	8.7	8.0	8.0	7.4	8.6
Claims on private sector (percent change, year-on-year)	7.8	-0.2	3.8	11.1	9.1	11.7
Broad money (in percent of GDP)	76.6	90.5	90.4	86.0	83.6	78.0
Claims on private sector (in percent of GDP)	48.0	52.0	49.9	48.9	48.3	46.1
Nominal GDP, annual	19,518	17,952	19,411	22,028	24,319	26,432

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, 2021–26
(In BPM6, billions of U.S. dollar, unless otherwise indicated)

	2021	2022	2023	2024 Est.	2025 Proj.	2026 Proj.
Current account balance	-5.9	-18.3	-11.8	-9.5	-9.8	-9.7
Trade balance of goods and services	-38.8	-53.8	-47.2	-45.8	-47.7	-49.5
Goods	-52.8	-69.7	-65.9	-67.3	-72.5	-77.1
Exports, f.o.b.	54.2	57.7	55.4	59.0	62.6	66.6
Imports, f.o.b.	107.0	127.4	121.3	126.3	135.1	143.7
Services	14.0	15.9	18.7	21.5	24.8	27.6
Receipts	33.6	41.1	48.3	54.2	61.0	67.6
Payments	19.5	25.2	29.6	32.8	36.2	40.1
Primary income, net	3.3	4.9	4.4	4.6	6.0	7.4
Receipts, of which:	11.8	13.0	16.4	16.9	18.7	20.5
Compensation of employees	8.8	9.1	9.3	9.9	10.5	11.2
Payments	8.5	8.1	11.9	12.3	12.7	13.1
Secondary income, net	29.5	30.6	31.0	31.7	31.9	32.4
Receipts, of which:	30.5	31.4	32.0	32.9	33.2	33.7
Workers' remittances	27.0	28.0	28.9	29.6	29.9	30.3
Payments	1.0	0.8	1.1	1.2	1.2	1.3
Capital account	0.1	0.0	0.1	0.1	0.1	0.1
Financial account	-6.4	-13.9	-14.1	-16.1	-10.9	-10.7
Direct investment	-9.7	-5.6	-5.2	-5.6	-6.4	-8.4
Portfolio investment	10.2	-1.7	3.0	-3.5	1.5	2.1
Financial derivatives	0.0	0.0	-0.1	-0.1	-0.1	-0.1
Other investment	-7.0	-6.5	-11.7	-6.9	-5.9	-4.4
Errors and omissions	0.8	-2.9	1.4	0.0	0.0	0.0
Overall balance	1.3	-7.3	3.7	6.7	1.2	1.1
Memorandum items:						
Nominal GDP (US\$ billions)	394	404	437	469	506	548
Current account (in percent of GDP)	-1.5	-4.5	-2.7	-2.0	-1.9	-1.8
Short-term debt (original maturity)	15.1	16.6	17.1	18.7	20.0	21.2
Short-term debt (residual maturity)	21.2	25.2	27.0	24.3	26.1	26.0
Gross reserves	108.8	96.1	103.8	113.3	115.9	117.5
External debt (US\$ billions)	106.4	111.3	125.4	135.7	144.0	150.9
External debt (in percent of GDP)	27.0	27.5	28.7	28.9	28.5	27.5

Sources: Philippine authorities; and IMF staff projections.

Table 6. Philippines: Medium-Term Outlook, 2023–29

(In percent of GDP, unless otherwise indicated)

	2023	2024 Est.	2025 Proj.	2026 Proj.	2027 Proj.	2028 Proj.	2029 Proj.
GDP and prices							
Real GDP (percent change)	5.5	5.8	6.1	6.3	6.3	6.3	6.3
CPI (percent change, annual average)	6.0	3.2	2.8	3.0	3.0	3.0	3.0
GDP by expenditure							
Consumption (percent change)	4.7	5.4	5.8	6.0	6.2	6.1	6.1
Private	5.6	5.2	6.3	6.5	6.5	6.6	6.5
Public	0.6	6.4	3.0	3.3	4.4	3.6	4.3
Gross fixed investment (percent change)	8.2	8.3	8.6	8.9	9.3	9.5	9.6
Net exports (contribution to growth)	0.0	-1.0	-1.0	-1.1	-1.3	-1.4	-1.5
Investment and saving							
Gross investment	23.3	23.0	23.2	25.3	26.0	26.8	27.7
Private	17.6	17.2	17.9	20.6	21.4	22.1	22.9
Public	5.7	5.8	5.3	4.8	4.7	4.7	4.7
National saving	20.6	21.0	21.3	23.6	24.4	25.3	26.2
Private	18.8	18.4	19.4	21.2	21.6	22.1	22.6
Public	1.8	2.6	1.9	2.3	2.8	3.2	3.5
Public finances							
National government balance	-6.1	-5.6	-5.6	-4.6	-4.0	-3.6	-3.3
Total revenue	15.7	16.6	15.8	15.8	15.8	15.9	16.0
Total expenditure and net lending	21.8	22.2	21.4	20.5	19.9	19.6	19.3
National government gross debt	60.1	61.2	62.0	61.7	60.8	59.5	58.0
General government gross debt	56.5	57.6	58.3	58.1	57.2	55.8	54.3
Current account	-2.7	-2.0	-1.9	-1.8	-1.6	-1.5	-1.5
Reserves (US\$ billions)	103.8	113.3	115.9	117.5	118.5	119.0	118.6
Reserves/short-term liabilities 1/	384.7	466.4	443.8	451.3	436.8	427.1	493.5
Total external debt	28.7	28.9	28.5	27.5	26.5	25.1	23.6
Monetary sector							
Claims on private sector 2/	48.3	49.3	50.8	52.2	53.6	54.3	55.1
Claims on private sector (percent change) 2/	9.1	11.0	11.9	11.9	11.8	10.3	10.7

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, 2019–24

(In percent)

	2019	2020	2021	2022	2023	2024:Q2
Capital adequacy						
Regulatory capital to risk-weighted assets	15.2	16.3	16.5	15.3	16.3	15.7
Regulatory Tier-1 capital to risk-weighted assets	14.0	15.3	15.5	14.4	15.3	14.8
Capital to total assets	9.5	9.6	9.5	8.9	9.4	9.3
Nonperforming loans net of provisions to capital	4.9	6.6	7.7	4.0	4.9	5.7
Net open position in foreign exchange to capital	5.8	3.7	3.6	4.1	7.0	5.5
Gross asset position in financial derivatives to capital	1.3	1.6	1.5	2.9	1.8	3.0
Asset quality						
Nonperforming loans to total gross loans	2.0	3.5	4.0	3.1	3.2	3.5
Specific provisions to nonperforming loans	58.0	65.9	64.0	78.1	72.1	70.7
Earnings and profitability						
Return on assets	1.5	1.1	1.4	2.1	1.7	1.8
Return on equity	11.0	7.6	10.4	15.4	13.0	12.9
Interest margin to gross income	74.0	73.9	73.1	75.2	78.7	80.7
Trading income to gross income	7.8	12.1	4.4	2.2	2.1	0.6
Noninterest expenses to gross income	58.7	52.9	55.2	54.8	55.5	53.5
Personnel expenses to noninterest expenses	34.5	35.6	36.1	34.9	33.3	34.2
Liquidity and funding						
Liquid assets to total assets	32.0	35.3	31.6	29.8	29.7	28.2
Liquid assets to short-term liabilities	48.8	53.5	47.7	44.1	43.6	41.1
Non-interbank loans to customer deposits	0.9	0.8	0.7	0.7	0.8	0.8
Sensitivity to market risk						
Foreign currency denominated loans to total loans	10.7	10.6	11.0	10.2	8.6	8.9
Foreign currency denominated liabilities to total liabilities	19.7	17.6	17.3	19.8	22.2	24.2
Real estate markets						
Residential real estate loans to total loans	7.3	8.0	8.2	7.8	7.5	7.6
Commercial real estate loans to total loans	13.2	14.0	14.3	13.5	13.1	12.8

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

Table 8. Philippines: Indicators of External Vulnerability, 2021–26

(In percent of GDP, unless otherwise indicated)

	2021	2022	2023	2024 Est.	2025 Proj.	2026 Proj.
External indicators (including external liquidity)						
Gross international reserves (US\$ billions, end of period)	108.8	96.1	103.8	113.3	115.9	117.5
Maturing short-term debt (US\$ billions)	15.1	16.6	17.1	18.7	20.0	21.2
Amortization of medium and long-term debt (US\$ billions)	7.0	4.6	7.7	9.9	5.6	6.1
Net FDI inflows (in BPM6, US\$ billions)	-9.7	-5.6	-5.2	-5.6	-6.4	-8.4
FX deposits residents (US\$ billions)	46.9	48.2	55.0	...	...	...
Total gross external debt	27.0	27.5	28.7	28.9	28.5	27.5
Fiscal indicators						
National government overall balance	-8.3	-7.2	-6.1	-5.6	-5.6	-4.6
National government cyclically-adjusted primary balance	-5.3	-5.0	-3.2	-2.6	-2.6	-1.7
Net debt denominated in FX or linked to the exchange rate (in percent of total)	30.9	32.5	32.6	32.7	32.2	32.1
Short-term net general government debt (original maturity, in percent of total)	6.8	3.1	3.6	3.9	4.0	4.1
Amortization of total general government debt	8.0	5.2	5.9	6.9	6.8	6.3

Sources: Philippine authorities; and IMF staff estimates.

Annex I. Implementation of Main Recommendations of the 2023 Article IV Consultation

Policies	2023 Article IV Consultation Recommendations	Actions Since 2023 Article IV Consultation
Monetary Policy	<p>Maintain a restrictive monetary policy stance until inflation fully returns to target to anchor inflation expectations.</p> <p>Remain vigilant to surges in commodity prices and potential second-round effects.</p> <p>Communicate the desired size of the BSP balance sheet in normal times and continue coordination with the BTr to further develop the benchmark yield curve.</p>	<p>The Bangko Sentral ng Pilipinas maintained its policy rate at 6.5 percent, in line with staff recommendations, before cutting the policy rate by 25bps in August and October. The BSP's restrictive stance has caused inflation and inflation expectations to fall substantially, bringing them within the target.</p> <p>The BSP has continued to make progress on the development of its operational framework, including by refining the variable rate RRP facility, and working closely with the industry to create an enhanced peso interest rate swap market and expand a repo market for government securities. As the BSP's holdings of government securities purchased during COVID-19 mature, the BSP could usefully communicate a strategy for the size of its balance sheet in normal times. Further work on developing the yield curve also remains.</p>
Financial Sector Policies	<p>Continue to strengthen financial supervision and regulation.</p> <p>Strengthen the bank resolution and corporate insolvency framework.</p> <p>Make progress on outstanding AML/CFT issues to exit from the FATF grey list, and separately reform the bank secrecy law.</p>	<p>In May 2024, the BSP Monetary Board approved "Strengthened Systemic Risk Oversight and Supervision" as one of the BSP's Strategic Objectives under its Enterprise Strategy. The Strategy aims to foster an integrated approach on macroprudential policy through a structured collaboration among offices working on systemic risk management, monetary policy, payments, and banking supervision.</p> <p>The BSP is actively working on addressing IMF TA recommendations on the bank resolution framework, including the establishment of a separate resolution unit and drafting a resolution manual and legislative protocols on resolution, among others.</p> <p>The authorities have made significant progress toward exiting from the FATF grey list and strengthening the overall AML/CFT framework but now need to maintain the momentum to keep up with evolving FATF requirements.</p>
Fiscal Policy	<p>Timely implement tax policy measures identified in the FY2024 budget.</p> <p>Complement the MTFF with a tax-policy-oriented medium-term revenue strategy to create more fiscal space to support policy priorities.</p> <p>Reform MUP pension system, improve expenditure efficiency, and effectively manage the process of decentralization.</p> <p>Strengthen the oversight of GOCCs, PPPs, and social security</p>	<p>The authorities are working with Congress to legislate several tax policies, which include Package 4 of the Comprehensive Tax Reform Program, excise tax on single-use plastics, the motor vehicle road user's charge, and the rationalization of the mining fiscal regime. They are already in the advanced stages and most are expected to be passed before year-end. The VAT on digital services was signed into law in early October 2024.</p> <p>Fiscal consolidation is expected to continue in line with the revised targets identified in the MTFF.</p> <p>The authorities are working to reform the MUP pension system and increase capacity for LGUs to deliver public service. They are working with Congress to legislate the Progressive Budgeting for Better and Modernized Governance, and the National Government Rightsizing Program. The digitalization of the PFM system also continues.</p>

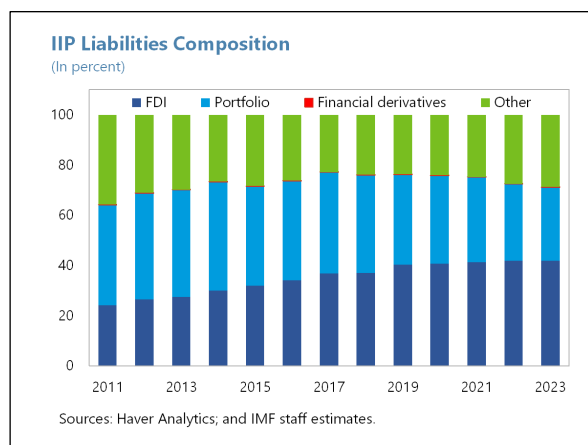
Policies	2023 Article IV Consultation Recommendations	Actions Since 2023 Article IV Consultation
	institutions (SSIs) to enhance governance and reduce fiscal risks.	The authorities are working to enhance the oversight of the GOCCs.
Structural Policies	<p>Sustain efforts to reduce infrastructure and education gaps, promote foreign investment, strengthen governance, and harness the digital economy to boost growth potential and inclusivity.</p> <p>Policies should remain focused on reducing poverty levels and addressing inequality through creating quality jobs, educational attainment, and enhancing social protection programs.</p> <p>Address climate risks through a multi-pronged approach.</p>	<p>The authorities remain committed to reducing infrastructure gaps by targeting at least a 5 percent infrastructure disbursements-to-GDP ratio every year by implementing the flagship projects approved by the National Economic and Development Authority (NEDA) Board, including through PPPs. The authorities have intensified economic diplomacy initiatives and business-friendly administrative reforms, such as the Green Lanes for Strategic Investments and the establishment of a One-Stop Shop for Strategic Investments, attracting higher FDI pledges. The authorities are making progress on the digitalization of their financial management information systems, and the digitalization of tax registration, filing, and payment processes. Following approval in the House of Representatives of the E-Governance Act, the relevant bill is now pending in the Senate. The Technical Education and Skills Development Authority has partnered with Microsoft Philippines to accelerate efforts to equip Filipinos with digital skills and established seven Regional Technical and Vocational Education and Training centers nationwide.</p> <p>The 2023 Full Year Official Poverty Statistics show the poverty incidence among the population dropping to 15.5 percent from 18.1 percent in 2021. Complementing existing social protection and cash transfer initiatives, the Food STAMP program has moved beyond the pilot phase and expanded to cover 150,000 beneficiaries as of July 2024, aiming to reach one million beneficiaries by 2027.</p> <p>The authorities published in 2024 their National Adaptation Plan and NDC Implementation Plan. Following the 28th session of the Conference of the Parties (COP28), they secured a seat on the Board of the Loss and Damage Fund, which will be hosted in Manila. The Financial Sector Forum published a local sustainable finance taxonomy which covers climate change and mitigation objectives.</p>

Annex II. External Sector Assessment¹

The Philippines' external position in 2023 was broadly in line with the level implied by fundamentals and desirable policies. The current account has narrowed on the back of strong services exports and lower commodity prices. Foreign reserves increased in 2023 and are expected to remain adequate over the medium-term. In the medium term, exchange rate flexibility and structural policies should help contain the CA deficit, keeping it in line with its norm.

Foreign Asset and Liability Position

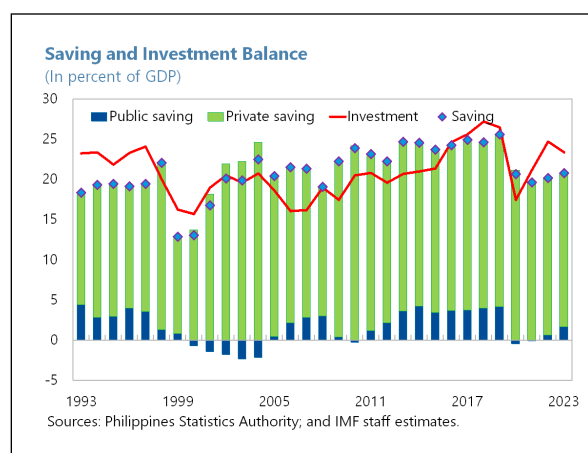
1. Background. The net international investment position (NIIP) widened to -11.7 percent of GDP in 2023 from -10.1 percent of GDP in 2022. Foreign reserves held by the BSP accounted for about 43 percent of total external assets in 2023, a slight rise from 42 percent in 2022, reflecting a declining current account deficit and greater investment (other investment-loans) inflows. Key components of external liabilities in the NIIP included FDI (28 percent of GDP) and portfolio investment (19.6 percent of GDP) and other investment (19.2 percent of GDP). Total external debt increased to 28.7 percent of GDP in 2023 from 27.6 percent of GDP in 2022.



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 (26.0 percent of FX reserves), and FDI accounts for a sizeable share of liabilities (41.9 percent of total liabilities).

Current Account

3. Background. The CA deficit narrowed to 2.7 percent of GDP in 2023 from 4.5 percent of GDP in 2022. The improvement in the current account balance in 2023 reflects a declining goods trade deficit, partly due to lower commodity prices, and strong services exports. From a saving-investment (S-I) perspective, the current account improvement was driven by a rise in private and public savings as pandemic pent-up demand waned and a decline in private investment, while public investment remained



¹ Prepared by Margaux MacDonald (APD).

broadly unchanged from 2022. The CA deficit is expected to narrow further to -2.0 percent of GDP in 2024, supported by continued strength in services exports including tourism, and falling food prices.

4. Assessment. The external position in 2023 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 -2.3 percent and a CA norm of -1.2 percent of GDP in 2023. Staff estimates a CA gap of -1.1 percent of GDP for 2023. Staff's estimated CA gap is less than in the previous year (-1.7 percent of GDP in 2022).

Real Exchange Rate

5. Background. The peso appreciated by 3.4 percent in real effective terms in 2023. The appreciation reflects the relatively higher inflation rate in the Philippines and relatively flat nominal effective exchange rate.

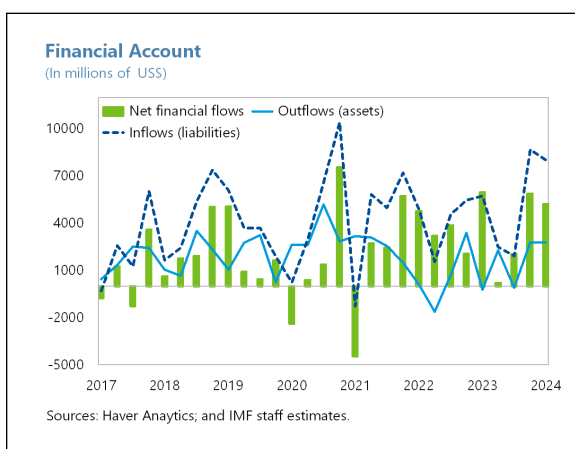
6. Assessment. The staff CA gap estimate of -1.1 percent of GDP implies a real effective exchange rate (REER) gap of 3 percent (applying an estimated elasticity of 0.33). The REER index and level models point to 2023 REER gaps of 14.8 percent and 7.4 percent, respectively.

Capital and Financial Accounts

7. Background. Net financial inflows increased slightly to 3.5 percent of GDP in 2023 from 3.4 percent of GDP in 2022. Net FDI inflows slowed to 1.1 percent of GDP in 2023 from 1.4 percent of GDP in 2022. While net inflows of debt securities in foreign portfolio investment declined to 0.02 percent of GDP in 2023 from 0.4 percent of GDP in 2022 due to a decline in general government debt and other sector debt, it was offset by an increase in debts of deposit-taking corporations.

	CA Model	REER Level Model	REER Index Model
CA Actual	-2.6		
Cyclical contributions (-)	0.4		
Adjusted CA	-2.2		
CA Norm (from model)	-1.2		
CA Gap (from model)	-1.0		
Policy Gap	0.3		
COVID-19 adjustment (+)	0		
Staff Gap	-1.0		
Elasticity	-0.33		
REER Gap (percent)	3	14.8	7.4

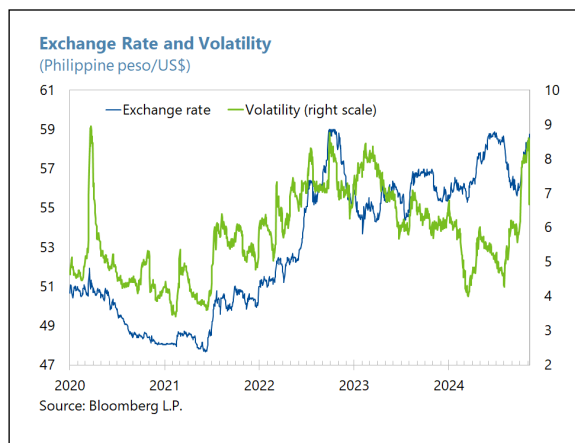
Source: IMF staff estimates



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, including from policy settings in advanced economies, have outside 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 to smooth excessive exchange rate volatility. Intervention data are not published. The peso depreciated by 4.95 percent relative to the US dollar in 2023, reflecting broad dollar strength following tighter for longer monetary policy in major advanced economies. The gross international reserves (GIR) increased to US\$103.8 billion in 2023 (23.7 percent of GDP) from US\$96.1 billion at end-2022.



10. Assessment. Reserves are adequate. Reserves as of end-2023 were about 7.8 months of imports of goods and services, or about 196 percent of the IMF's reserve adequacy metric.

Annex III. Risk Assessment Matrix¹

	Source of Risks	Likelihood	Expected Impact	Policy Recommendation
Global	Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, and/or supply chains), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	Medium. Philippines has little direct trade with Israel, 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.	Use available fiscal space effectively to provide targeted support if domestic demand weakens significantly. Provide targeted support to viable firms, while facilitating the exit of unviable ones. Ensure banking sector remains stable and markets remain liquid, while working to increase financial sector resilience.
	Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green energy transition) cause recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	High	Medium. Increased pressure on CPI inflation may risk destabilizing inflation expectations and delay the expected monetary policy loosening.	Stand ready to delay policy rate cuts or consider further tightening monetary policy as needed 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.
	Global growth surprises: Slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, or the real estate sector contraction (especially in China), with adverse spillovers through trade and financial channels, and market fragmentation triggering sudden stops in EMDEs. Acceleration. Positive supply-side surprises, retreat from protectionism and sanctions, monetary policy easing, productivity gains from AI, and/or stronger performance of large EMDEs increase global demand, promote trade, and ease global financing conditions.	Medium	High. Slowdown: Lower GDP growth, due to weaker foreign investment and exports; a decline in capital inflows, leading to currency depreciation and tighter domestic credit conditions; higher poverty rate. Acceleration: higher GDP growth, due to stronger exports, FDI and capital inflows.	Allow the exchange rate to act as a shock absorber while using foreign exchange intervention to counter disorderly market conditions that can unduly influence the overall outlook for inflation and dislodge the public's inflation expectations. Use available fiscal space effectively to provide targeted support in the case of a slowdown. 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.
	Monetary policy miscalibration. Amid high uncertainty and data surprises, major central banks' stances	Medium	Medium. An increase in capital outflows that lead to large exchange rate depreciation and volatility; tighter financial conditions.	The exchange rate should remain flexible, and market driven. Monetary policy should stand ready remain tighter for longer in the face of persistent inflation

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.

	Source of Risks	Likelihood	Expected Impact	Policy Recommendation
	turn out to be too loose, hindering disinflation, or too tight for longer than warranted, which stifles growth and triggers increased capital-flow and exchange-rate volatility in EMDEs.			and lower policy rates in major economies. Provided the monetary policy stance remains adequate to address inflation risks, and considering Philippines' shallow FX markets, the use of FXI may be appropriate under certain circumstances.
	Deepening geoeconomic fragmentation. Broader and deeper conflict(s), inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary and financial systems, and lower growth.	High	Medium. Weaker exports; reduced FDI inflows; increased uncertainty leading to weaker investment.	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. Further progress on open trade policy (including lifting non-tariff barriers) and diversification of FDI source countries.
Domestic	Private investment accelerates faster than anticipated. The new public-private partnership code helps accelerate investment, thereby boosting productivity and growth.	Medium	Medium. By making it easier to partner with the government in large investment projects, private investment growth rises, accelerating improvements in infrastructure and boosting productivity and growth.	Careful selection and sequencing of projects is needed to ensure they most effectively support the country's development objectives while minimizing fiscal risks and the emergence of contingent liabilities.
	Projected pickup in domestic demand does not materialize. Reform momentum stalls or payoffs from reforms are less than expected, resulting in growth below the baseline.	Medium	Medium. Growth outturns are less than projected as the payoffs from reforms to private and foreign investment are less than anticipated, or the reform momentum is not realized thus not unlocking potentially higher growth.	A continued push on priority reforms, including opening the Philippine economy, business sector reforms, and improving governance will help support domestic demand.
	Natural disasters. Major natural disasters (e.g., typhoons, volcano eruptions and/or earthquakes) or extreme climate events driven by rising temperatures disrupt economic activity, cause loss of life, food insecurity, and affect sentiment, resulting in higher fiscal expenditure.	High	High. Disruption in economic activity in the affected region; poor agriculture production; damage to properties; and higher food inflation, with larger impact on low-income households in rural areas.	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.

Annex IV. Implementation of FSAP Recommendations¹

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
<p>Update: The BSP notes that capital adequacy ratios stand at 16.1 percent (solo) and 16.6 percent (consolidated) as of June 2024, i.e., well above the BSP and BIS minimum thresholds equal to 10 and 8 percent respectively. More broadly, dividend prohibitions are handled on a case-by-case basis considering a bank's varied internal capital targets, stress testing results, and risk profile, among other factors. In addition, 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.¹</p>	
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
<p>Update: In May 2024, the Monetary Board of the BSP approved the 2024-2029 Enterprise Strategy, which lists Strengthened Systemic Risk Oversight and Supervision as one of its five key strategic objectives. Under this objective, the BSP aims to enhance its existing macroprudential oversight and microprudential supervision functions to effectively monitor and manage financial stability risks by establishing an integrated systemic risk management framework encompassing governance, macroprudential supervision, surveillance tools, and crisis management, to strengthen BSP's ability to identify and manage systemic risks in a timely, well-coordinated, and cohesive manner.</p>	
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
<p>Update: Under the current legal framework, the Council does not have sufficient legal basis to implement a comply-or-explain mechanism. Executive Order No. 144 conveys to the Council the power to issue directives or policy regulations to meet its purpose of enhancing financial stability.</p>	
Expand macroprudential policy toolkit and establish operational procedures to set them in a more systemic risk-based manner (BSP).	MT
<p>Update: The BSP is exploring the recalibration of the CCyB and providing the mechanism on how to operationalize it. In addition, the BSP's stress tests are being integrated to analyze vulnerabilities originating outside the banking sector, with an eye to potentially introducing sector-specific policies.</p>	
Financial Sector Supervision	
Lapse or limit the use of issued regulatory forbearance measures (BSP).	
<p>Update: The BSP has unwound temporary relief measures, and most have expired/lapsed as of September 2024 except for: i) ceilings on credit card transactions (subject to review every 6 months); ii) relief on the recognition of losses from sale / transfer of nonperforming assets (NPAs) under the Financial Institutions Strategic Transfer (FIST) Act (2Q 2027²); iii) relief measures allowing thrift, rural and cooperative banks to utilize MSME loans and eligible loans to large enterprises as alternative compliance with the reserve requirement (RR) subject to conditions (4Q 2025³).</p>	

¹ Per BSP Memorandum No. M-2020-039. <https://www.bsp.gov.ph/SitePages/Regulations/RegulationDisp.aspx?ItemId=4319>.

² BSFI's are allowed to defer the recognition of losses arising from the sale/transfer of NPAs under the FIST Act up to a maximum period of five years from the date of sale/transfer of the NPAs, subject to prior BSP approval and disclosure requirements. Per BSP Memorandum No. 2022-028 dated June 6, 2022. <https://www.bsp.gov.ph/Regulations/Issuances/2022/M-2022-028.pdf>.

³ While this relief measure expired for universal and commercial banks on June 30, 2023, outstanding MSME and LE loans of thrift, rural and cooperative banks as of June 30, 2023 shall remain eligible as alternative compliance with the RR until such loans are fully paid, but not later than December 31, 2025, subject to certain conditions.

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)

Enhance regulatory powers and standards regarding transfer of significant ownership or controlling interest and to assess the suitability of beneficial owners of banks (BSP, Department of Finance (DOF)).	ST
Update on transfer of significant ownership: The draft Circular covering the proposed amendments to the guidelines governing the transfer of significant ownership in banks and quasi-banks (QBs) was re-exposed ⁴ for comments on July 13, 2023. The BSP is currently evaluating the comments/inputs/feedback received from the industry and other pertinent stakeholders.	
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 BSP stays informed about developments and issues relating to NBFIs, which are part of a conglomerate not under its supervision, through regular meetings with other financial sector regulators under the Financial Sector Forum (FSF). To date, the FSF has successfully completed three Supervisory Colleges, with the BSP acting as the Lead Supervisor together with other agencies. The fourth Supervisory College commenced in August 2024 and is expected to be completed by February 2025.	
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: Pursuant to BSP Memorandum No. M-2024-013 dated 26 April 2024—on the Guideline on the Submission of the Report on Large Exposures—the BSP started to receive large exposure reports of covered banks and quasi banks in May 2024. The BSP is currently evaluating the report submissions. In addition, the BSP is currently working on the proposed Circular on the amendments to the prudential Reports on Conglomerate Structure and Material Related Party Transactions (RPT), planning to enhance the RPT by requesting information on: (1) total assets of entities forming part of the conglomerate; (2) the extent of shareholdings of the controlling entities in the controlled corporations; (3) major lines of business or activities that the member corporations are engaged in. Electronic submission of reports will also be required to facilitate validation of information against other BSP reports., with the initiative complemented by a supervisory college among Financial Sector Forum member agencies in relation to financial conglomerate supervision.	
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: Proposed amendments to the Bank Secrecy Law ⁵ (House Bill No. 7446) were approved on third reading on May 8, 2023, and were referred to the Senate Committee on Banks, Financial Institutions and Currencies on 15 May 2023. Counterpart legislations were also filed in the Senate of the Philippines under Senate Bill (SB) Nos. 1839 ⁶ , 1068 ⁷ , 596 ⁸ , and 56 ⁹ , which are still pending (with the bill included among the 20 priority measures of the current administration).	
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 FSAP recommendation may require legislative amendments. Currently, the BSP is conducting a study on the potential structure of a proposed financial conglomerate model. As regards the power to obtain information from the wider group, a Technical Working Group was established in June 2023 to finalize the implementing guidelines of Section 23 of Republic Act No. 7653, or the New Central Bank Act (Authority to Obtain Data and Information). The guidelines will govern any person or entity that the BSP may ask to provide data for statistical and policy development purposes. The said guidelines were targeted to be submitted to the Monetary Board for approval in October 2024.	
⁴ The draft Circular on the proposed amendments to the policy on the transfer of significant ownership was initially presented to various banking industry associations, pertinent BSP units, and other stakeholders on October 9, 2020, and January 22, 2021.	
⁵ Lead Agency: BSP; Member Agencies: Presidential Legislative Liaison Office, AMLC, SEC, Office of the Solicitor General, Office of the Ombudsman, Law Enforcement Authorities, Department of Justice.	
⁶ SB No. 1839 or "An Act Promoting Transparent Governance and Instituting Anti-Corruption Mechanisms in the Operation of Banks and Other Financial Institutions, Amending for the Purpose Republic Act No. 1405, Otherwise Known as the Secrecy of Bank Deposits Law."	
⁷ SB No. 1068 or "An Act Amending R.A. No. 1405, Otherwise Known as The Secrecy of Bank Deposits Law."	
⁸ SB No. 596 or "An Act Exempting Government Officials and Employees from the Prohibition Against Disclosure of or Inquiry into Deposits with Any Banking Institution, amending for the Purpose Certain Provisions of R.A. No. 1405, Otherwise Known as the 'Secrecy of Bank Deposits Law'."	
⁹ SB No. 56 or "An Act Mandating Government Officials and Employees to Execute and Submit a Written Permission to Examine, Inquire or Look into All Their Deposits and Investments Thereby Waiving the Bank Secrecy Law as Provided for Under R.A. Nos. 1405 and 6426."	

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

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: The authorities consider this recommendation addressed, for details please see the 2022 Article IV staff report.	
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
<p>Update: Since the last Article IV consultation, the Anti-Money Laundering Council (AMLC) has implemented various strategies to ensure that Designated Non-Financial Businesses and Professions (DNFBPs) are registered with the AMLC to allow it to implement its risk-based supervision over the DNFBPs. The concerted efforts by the AMLC, other SAs, Appropriate Government Agencies (AGAs), and industry associations have increased registration of covered persons with the AMLC to 12,297 or 96.98 percent of the identified population by June 2024. Moreover, the AMLC created together with the BSP a working group to conduct reviews and leverage on the customer due diligence conducted by banks to determine their DNFBP clients to ensure that banks only deal with AMLC-registered DNFBPs. The Code of Professional Responsibility and Accountability (CPRA) of the law profession (Administrative Matter No. 22-09-01-SC) has also been amended. Specifically, the duty to report transactions to the AMLC is now expressly included. Lastly, the AMLC continuously conducts outreach to address various concerns of covered persons.</p> <p>Further, the AMLC and Department of the Interior and Local Government (DILG) signed a Joint Memorandum Circular (JMC) to enhance DNFBP registration in highly urbanized cities, requiring LGUs to submit semi-annual reports on businesses with permits, which the AMLC cross-verifies with the SEC list. The JMC mandates DNFBPs to present proof of AMLC registration when seeking permits from LGUs. Additionally, the BSP, SEC, and IC have directed Financial Institutions (FIs) to require DNFBPs to show proof of AMLC registration. The Philippine Amusement and Gaming Corporation (PAGCOR) has also implemented risk-based supervision frameworks, including enforcement actions and collaboration with law enforcement agencies.</p>	
Enhance the accuracy and availability of beneficial ownership information of companies (SEC).	MT
<p>Update: SEC has conducted outreach programs and used social media channels to inform stakeholders about the Electronic Filing and Submission Tool (eFAST), a portal where all reporting requirements, including beneficial ownership (BO) information are uploaded and filed. SEC has also entered into data sharing agreements with relevant authorities allowing them to access beneficial ownership information directly as opposed to through AMLC. In addition, SEC increased existing penalties and introduced new ones for failure to comply with BO disclosing obligations.</p> <p>Further, with regard to enforcement, the SEC implemented Memorandum Circular No. 19, Series of 2023, which outlines guidelines for placing corporations in delinquent status for failing to submit reportorial requirements, as stipulated under Sections 21 and 177 of the Revised Corporation Code. This measure aims to ensure sustained compliance rates in the coming years.</p>	
Crisis Management, Resolution, and Safety Net	
Ensure timely corrective actions and resolution of weak banks (BSP, PDIC).	ST
Update: The Prompt Corrective Action (PCA) policy provides a maximum allowable PCA period of two (2) years ¹⁰ within which a PCA bank should address supervisory concerns, which warranted its initiation into the PCA framework. Granting a period of more than one (1) year shall only be in consideration of the complexity and depth of the supervisory issues.	
Implement resolvability assessments and resolution plans, starting with D-SIBs (PDIC, BSP).	ST
Update: The IMF conducted a TA mission to assess the current resolution framework of the BSP against the Financial Stability Board (FSB)'s Key Attributes of Effective Resolution Regimes for Financial Institutions. Considering the IMF's recommendations from the TA, the BSP will review the Prompt Correction Action timeline, set definition of a point of non-viability, and create a Resolution Group/Unit. It shall then establish resolution tools, draft a Resolution Manual and Guidelines on Resolvability Assessment, draft guidelines on resolvability assessment of domestic Systemically Important Banks, and draft and submit a legislative proposal on resolution to Congress.	
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: Following IMF Technical Assistance from September 25 to October 6, 2023, the BSP, led by the Department of Loans and Credit is currently developing a comprehensive operational framework on its Lender of Last Resort (LOLR) function.	
¹⁰ This was reduced from the previous maximum period of three years.	

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

Designate and provide the PDIC with powers to act as resolution authority (PDIC, BSP, DOF).	MT
Update: With the 2022 amendment of the Philippine Deposit Insurance Corporation (PDIC) charter, 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. In the August 2023 IMF TA Report on Bank Resolution and Financial Crisis Management, the IMF recognized said amendment in the PDIC Charter and noted that BSP has become the sole resolution authority with resolution powers now resting with the Monetary Board.	
Expand and operationalize bank resolution tools (particularly P&A) beyond liquidation (PDIC).	MT
Update: The 2022 amendment to the PDIC Charter removed its resolution functions, and the Congress of the Philippines intended that these functions be centralized under the BSP to enable PDIC to more effectively and efficiently fulfill its core mandates as a deposit insurer and liquidator of banks. In February 2024, to address the key recommendations of an August 2023 IMF TA Report, the BSP's FSS created a technical working group (TWG) on Resolution to establish the groundwork for the development and operationalization of the resolution framework. In April 2024, the TWG conducted and completed its gap analysis which will be proposed as part of legislative measures to strengthen the resolution authority and powers of the BSP. Furthermore, Strategic Objective 2 of the BSP 2024-2029 Enterprise strategy highlighted three major deliverables related to resolution, which include: (1) the constitution of the BSP Resolution Group; (2) the development of the BSP Resolution Framework; and (3) the Development of resolution-related legislative proposals. Work along all three dimensions is ongoing.	
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 has set a meeting with the Philippine Space Agency to explore the availability of additional tools and data that could be used by the BSP for supervisory and surveillance purposes. Following a World Bank climate risk stress test focusing on the Philippine banking sector, the WB conducted parallel workshops for the BSP technical team to help acquaint its members with frameworks used in the development of transition risk stress tests related to climate change. The BSP will also collaborate with the BAP Risk Management Committee to develop supplementary guidance on the conduct of climate stress testing, which will provide detailed, Philippine-specific scenarios. In addition, the BSP will enhance its prudential reports to facilitate collection of relevant data for surveillance and analysis of emerging risks / trends arising from climate change and other environmental and social factors. The BSP also plans to update its existing disclosure requirements on sustainable finance on the adoption of International Financial Reporting Standards (IFRS)-International Sustainability Standards Board (ISSB) by banks.	

Annex V. Sovereign Risk and Debt Sustainability Analysis

Figure 1. Philippines: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Low	The overall risk of sovereign stress is low, reflecting a relatively low level of vulnerability in the near-term and medium-term horizons, and a moderate level of vulnerability in the long-term horizon.
Near term 1/			
Medium term	Low	Low	Medium-term risks are assessed as "low" in line with the mechanical signal.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test		...	
Long term	...	Moderate	Long-term risks are moderate as the increase in gross financing due to the pandemic as well as climate spending feed into debt dynamics, which will increase debt and GFN without policy actions. The government is aware of the climate spending, and policy measures are envisaged, such as revenue mobilization, and MUP pension reform, guided by the MTFF.
Sustainability assessment 2/			
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Commentary: The Philippines is at a "low" overall risk of sovereign stress and debt. Most indicators have started to normalize as the recovery from the COVID-19 shock has proceeded. Public debt is expected to gradually decline to about 58 percent of GDP over the medium-term, driven mainly by a favorable interest-growth differential. Debt coverage at the national level is appropriate, as local government units and social security institutions have surpluses. The realism tools suggest projections of key debt drivers are within norms. Medium-term solvency and liquidity risks are manageable. Over the longer run, structural reforms to boost growth potential and tackle risks from climate change should continue.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Philippines: Debt Coverage and Disclosure

						Comments							
1. Debt coverage in the DSA: 1/													
CG						GG	NFPS	CPS	Other				
1a. If central government, are non-central government entities insignificant?						Yes							
2. Subsectors included in the chosen coverage in (1) above:													
Subsectors captured in the baseline						Inclusion							
CPS	NFPS	GG: expected	CG	1	Budgetary central government	Yes	Not applicable						
				2	Extra budgetary funds (EBFs)	No							
				3	Social security funds (SSFs)	No							
				4	State governments	No							
				5	Local governments	No							
				6	Public nonfinancial corporations	No							
				7	Central bank	No							
				8	Other public financial corporations	No							
3. Instrument coverage:						Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/			
4. Accounting principles:						Basis of recording		Valuation of debt stock					
						Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/			
5. Debt consolidation across sectors:						Consolidated		Non-consolidated					
Color code: chosen coverage Missing from recommended coverage Not applicable													
Reporting on Intra-Government Debt Holdings													
Issuer		Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total		
CPS	NFPS	GG: expected	CG	1	Budget. central govt							7.3	
				2	Extra-budget. funds		2.9	4.5					0
				3	Social security funds								0
				4	State govt.								0
				5	Local govt.								0
				6	Nonfin pub. corp.								0
				7	Central bank								0
				8	Oth. pub. fin. corp								0
Total			0	2.9	4.5	0	0.0	0	0	0	7.3		

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

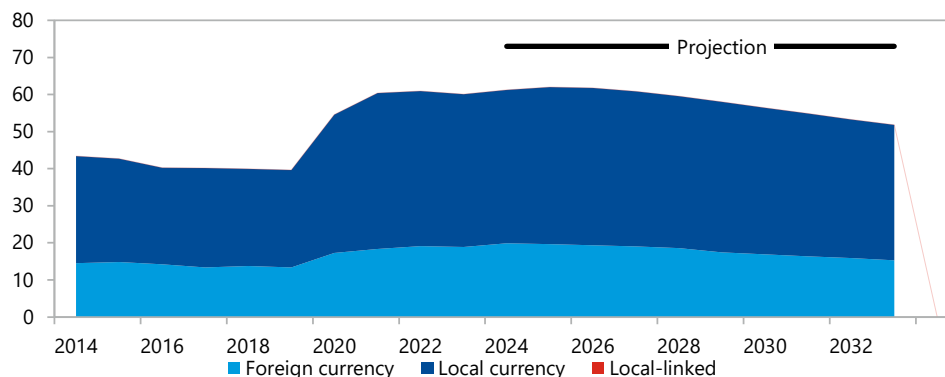
4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

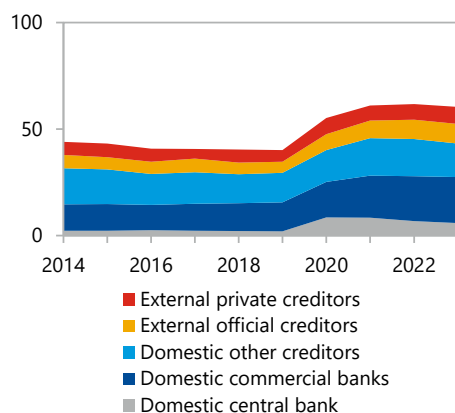
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

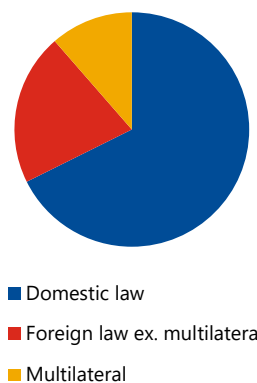
Commentary: The coverage in this SRDSA is national government debt. Debt held by Bond Sinking Funds was 2.9 percent of GDP and intra-sector bond holding 4.5 percent of GDP at end-2023. Total consolidated general government debt was 53.6 percent of GDP at end-2023, about 6.5 percentage points of GDP lower than the national government debt.

Figure 3. Philippines: Public Debt Structure Indicators**Debt by Currency (Percent of GDP)**

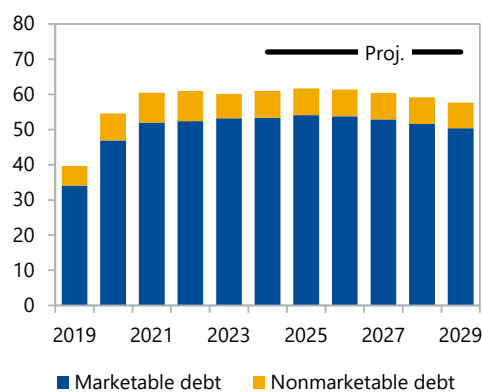
Note: The perimeter shown is central government.

Public Debt by Holder (Percent of GDP)

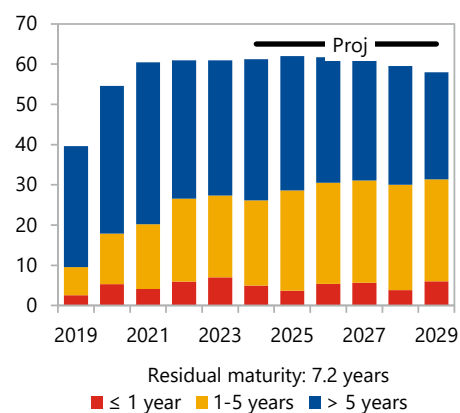
Note: The perimeter shown is central government.

Public Debt by Governing Law, 2023 (percent)

Note: The perimeter shown is central government.

Debt by Instruments (Percent of GDP)

Note: The perimeter shown is central government.

Public Debt by Maturity (Percent of GDP)

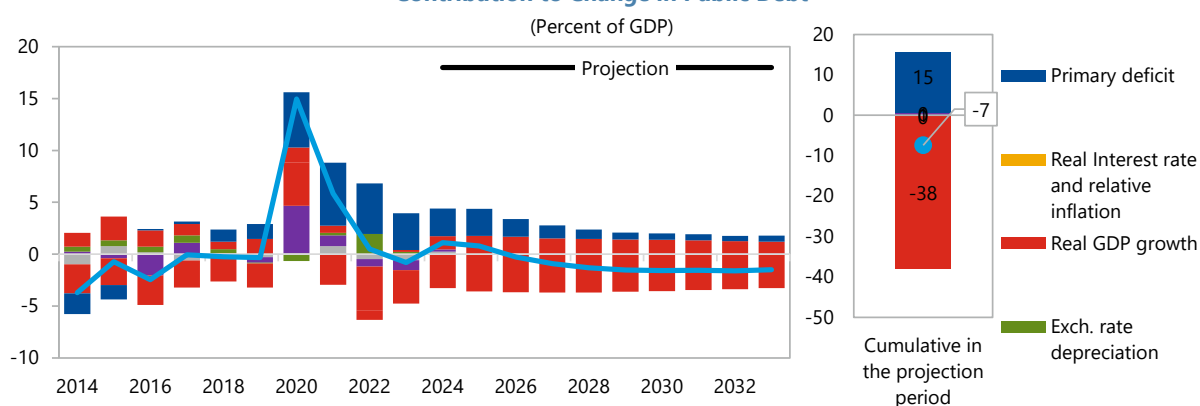
Note: The perimeter shown is central government.

Commentary: The currency composition and maturity structure of public debt are expected to remain about the same over the projection horizon.

Figure 4. Philippines: Baseline Scenario
(Percent of GDP unless indicated otherwise)

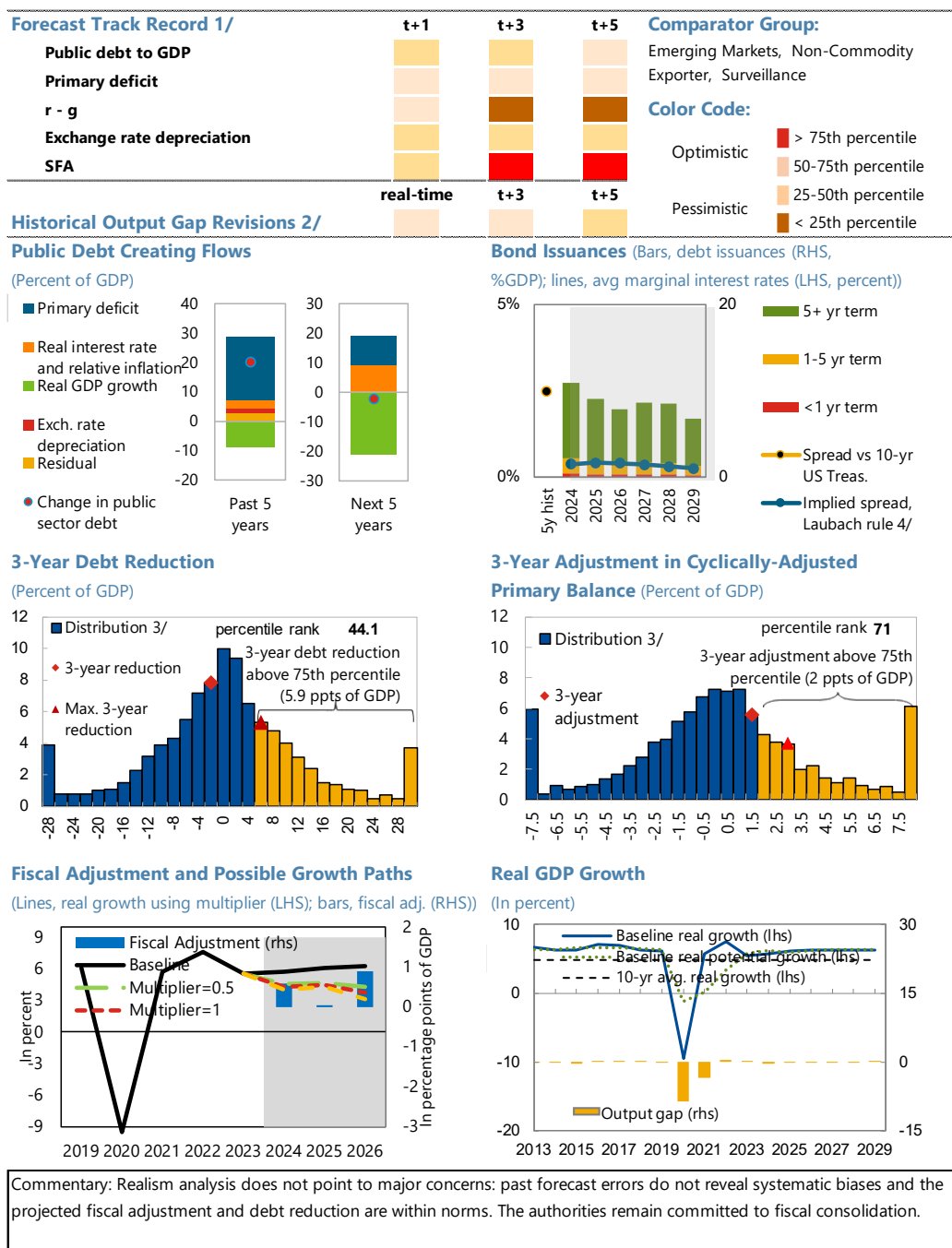
	Actual	Medium-term projection							Extended projection			
	2023	2024	2025	2026	2027	2028	2029		2030	2031	2032	2033
Public debt	60.1	61.2	62.0	61.7	60.8	59.5	58.0		56.4	54.9	53.3	51.8
Change in public debt	-0.8	1.1	0.8	-0.3	-0.9	-1.3	-1.5		-1.6	-1.5	-1.6	-1.5
Contribution of identified flows	-0.2	0.9	0.8	-0.3	-0.9	-1.2	-1.4		-1.5	-1.5	-1.6	-1.4
Primary deficit	3.5	2.7	2.6	1.7	1.2	0.9	0.7		0.6	0.6	0.5	0.6
Noninterest revenues	15.7	16.6	15.8	15.8	15.8	15.9	16.0		16.0	16.0	16.0	16.0
Noninterest expenditures	19.2	19.3	18.5	17.5	17.1	16.8	16.7		16.6	16.6	16.5	16.6
Automatic debt dynamics	-2.8	-2.0	-1.8	-2.0	-2.2	-2.2	-2.2		-2.2	-2.1	-2.1	-2.1
Real interest rate and relative inflation	0.2	1.3	1.7	1.6	1.5	1.4	1.4		1.3	1.3	1.2	1.2
Real interest rate	0.0	1.2	1.6	1.5	1.4	1.3	1.3		1.2	1.2	1.1	1.1
Relative inflation	0.2	0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	0.1	0.1
Real growth rate	-3.2	-3.3	-3.5	-3.7	-3.7	-3.6	-3.5		-3.5	-3.4	-3.3	-3.2
Real exchange rate	0.2	...	...	...	...	...	...		...	...	...	...
Other identified flows	-1.0	0.2	-0.1	0.0	0.1	0.0	0.0		0.1	0.1	0.1	0.1
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0
Other transactions	-1.0	0.2	-0.1	0.0	0.1	0.0	0.0		0.1	0.1	0.1	0.1
Contribution of residual	-0.6	0.2	0.0	0.0	0.0	-0.1	-0.1		-0.1	-0.1	-0.1	-0.1
Gross financing needs	9.0	12.2	10.1	8.7	9.5	9.3	7.4		9.3	8.8	8.7	7.9
of which: debt service	6.5	9.5	7.5	7.0	8.3	8.4	6.7		8.7	8.2	8.2	7.3
Local currency	5.2	7.7	5.9	5.6	6.8	6.9	4.8		7.0	6.6	6.7	5.9
Foreign currency	1.3	1.8	1.6	1.3	1.5	1.5	1.9		1.7	1.6	1.5	1.5
Memo:												
Real GDP growth (percent)	5.5	5.8	6.1	6.3	6.3	6.3	6.3		6.4	6.4	6.4	6.4
Inflation (GDP deflator; percent)	4.6	2.8	2.3	2.5	2.5	2.5	2.5		2.5	2.5	2.5	2.5
Nominal GDP growth (percent)	10.4	8.7	8.5	9.0	9.0	9.0	9.0		9.1	9.1	9.1	9.1
Effective interest rate (percent)	4.7	4.9	5.2	5.2	4.9	4.9	4.8		4.8	4.8	4.7	4.7

Contribution to Change in Public Debt



Commentary: Public debt will rise slightly but then decline, reflecting expectations of a narrowing of primary deficits and favorable interest-growth differential. Gross financing needs are expected to remain manageable. The analysis excludes other debt flows from the Bond Sinking Fund, which can further lower actual debt to GDP in the case of net drawdowns.

Figure 5. Philippines: Realism of Baseline Assumptions



Source : IMF Staff.

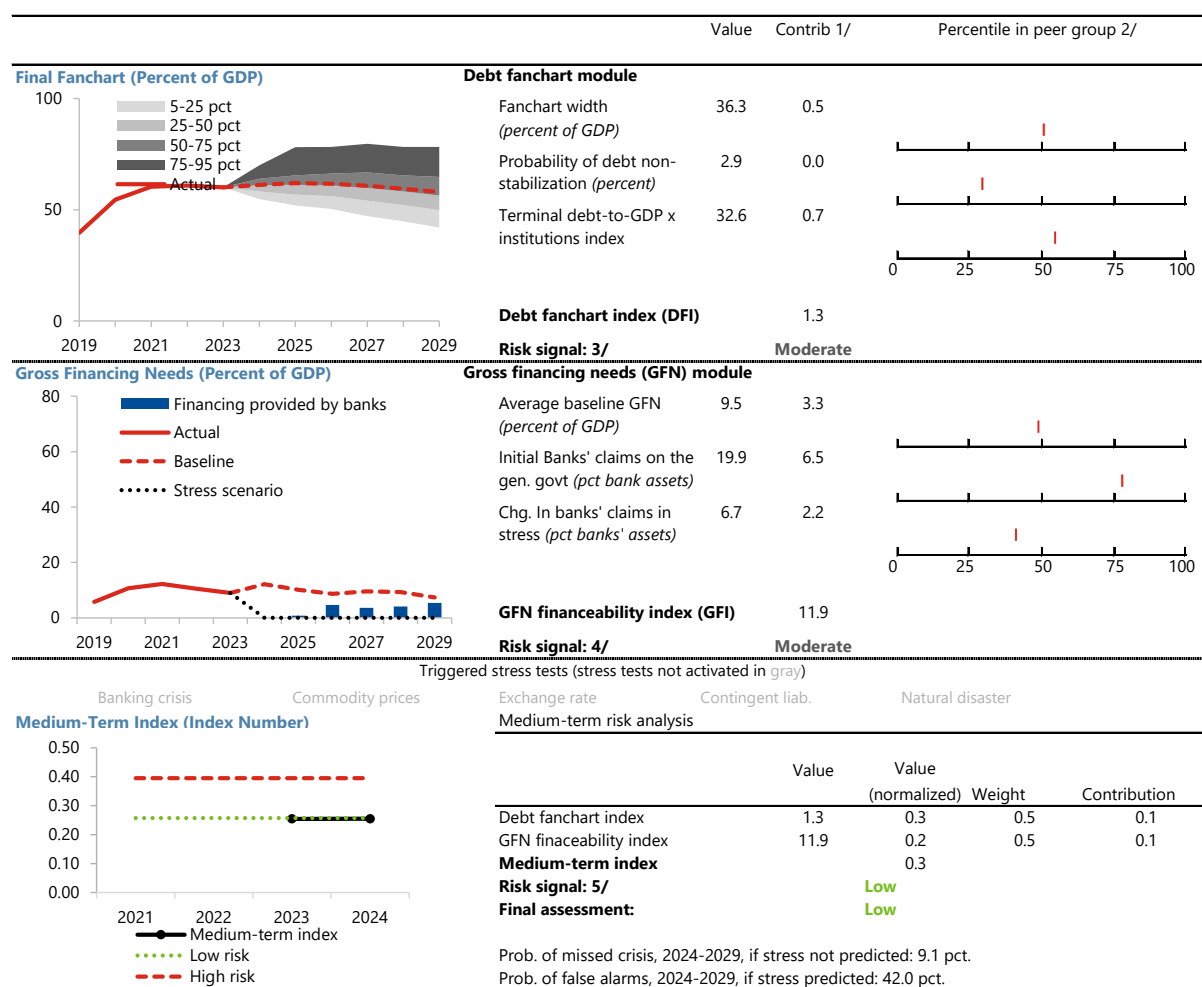
1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates)

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Figure 6. Philippines: Medium-Term Risk Assessment



Commentary: The Debt Fanchart module indicates a moderate risk around the projected debt baseline. In the GFN Financeability Module, a combination of increased GFN due to the pandemic and a relatively high initial bank holdings of public debt result in a moderate risk under macro-fiscal and debt holder shock. Taken together, the MTI produces a mechanical "low" signal. The analysis excludes other debt flows from the Bond Sinking Fund, which can further lower actual debt to GDP in the case of net drawdowns.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

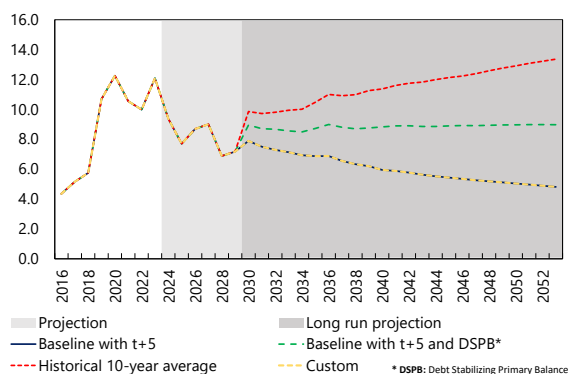
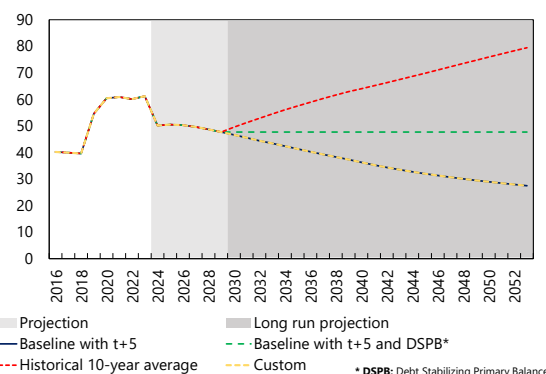
5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 7. Philippines: Long-Term Risk Analysis**Large Amortization Trigger**

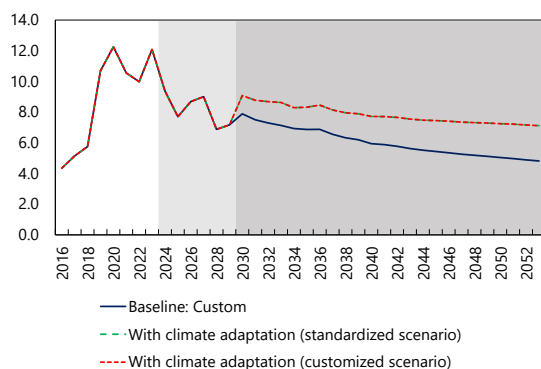
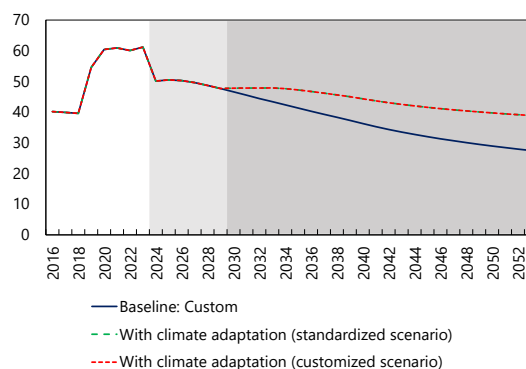
Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio	Green
	Amortization-to-GDP ratio	Red
	Amortization	Red
Historical average assumptions	GFN-to-GDP ratio	Red
	Amortization-to-GDP ratio	Red
	Amortization	Red
Overall Risk Indication		Red

Alternative Baseline Long-term Projections (including Custom scenario)

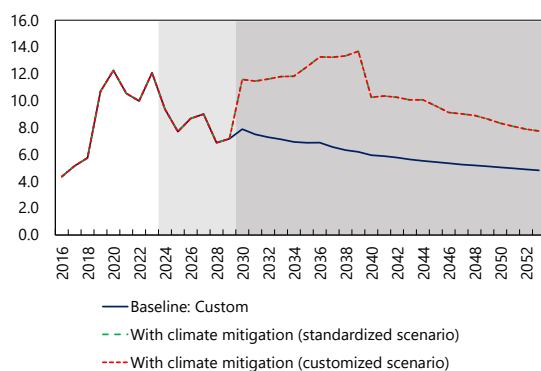
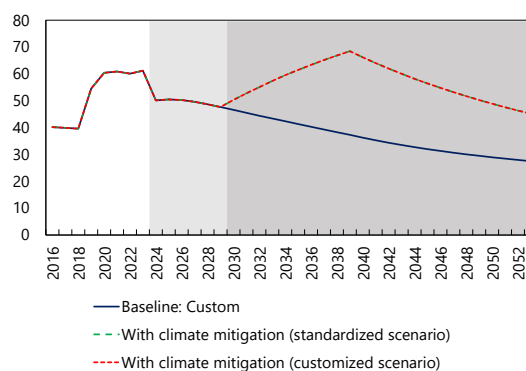
	Baseline extension of fifth projection year	Custom baseline
Real GDP growth	6.4%	6.4%
Primary Balance-to-GDP ratio	-0.6%	-0.6%
Real depreciation	-2.5%	-2.5%
Inflation (GDP deflator)	2.5%	2.5%

GFN-to-GDP Ratio**Total Public Debt-to-GDP Ratio**

Commentary: The increased GFN is due to the fiscal response to the pandemic and is expected to decline over the medium- to long-term horizons. The maintenance of a Bond Sinking Fund with 2.9 percent of GDP assets at end-2023 helps mitigate the refinancing risks.

Figure 7. Philippines: Long-Term Risk Analysis (Concluded)**Climate Change: Adaptation****GFN-to-GDP Ratio****Total Public Debt-to-GDP Ratio**

Commentary: Investment to address climate adaptation will increase the long-term financing needs. The analysis does not account for the growth effect of investment in climate change adaptation.

Climate Change: Mitigation**GFN-to-GDP Ratio****Total Public Debt-to-GDP Ratio**

Commentary: Investment to address climate mitigation will increase the long-term financing needs. The analysis does not account for the growth effect of investment in climate change mitigation.

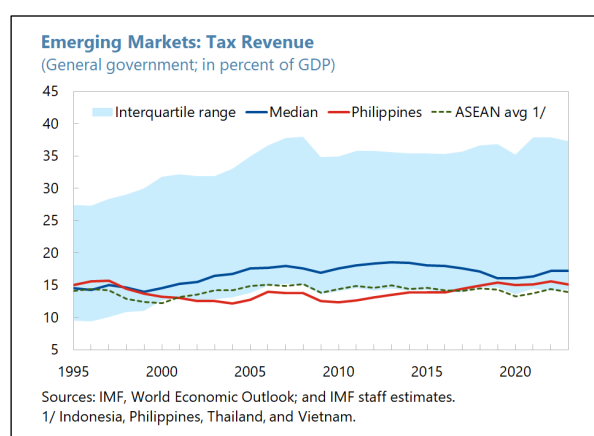
Annex VI. Tax Administration Reforms¹

The Philippines experienced notable improvement in its tax administration during 2010-2015; however, the pace of the improvement has slowed since then. The need to generate additional tax revenues to safeguard priority spending while meeting fiscal consolidation targets has reignited the drive for reforms in tax administration. An analysis based on identified gaps and literature on the yields from tax administration reform shows that implementing reforms in the areas of compliance risk management, systematic use and analysis of third-party data, and digitalization will significantly increase tax revenues. As tax administration reforms take time to bear fruits, a sustained commitment is essential.

Background

1. After implementing important revenue administration reforms over 2010-2015, the reform momentum in the Philippines has stalled. The increase in the national government

tax-to-GDP ratio from 11.7 percent to 13.0 percent of GDP over 2009-15 could largely be credited to advancements in revenue administration and the simplification of the tax system (based on the analysis conducted by [Adan et al, 2023](#)). These reforms included enhancements in return filings, data processing, services for large taxpayers, audits, and management of arrears. Nevertheless, there has been very slow progress in revenue administration since then as, absent any tax policy reforms, the tax to GDP ratio in 2022 would have remained the same as in 2017.² The stagnation in reforms and unwinding of nascent compliance risk management processes partly contribute to the Philippines' relative low tax revenues compared to other emerging markets.



2. Increasing tax revenues is crucial to achieve fiscal consolidation while protecting priority spending. Prudent fiscal management in the period leading up to the pandemic bestowed the Philippines with fiscal space to respond forcefully to the pandemic. However, the increased spending coupled with lower revenues resulted in an increase in the national government fiscal deficit-to-GDP ratio to 8.3 percent in 2021 from 3.3 percent in 2019 and the debt-to-GDP ratio to 60.9 percent at end-2022 from 39.6 percent at end-2019. A medium-term fiscal framework, introduced in 2022, aims to achieve a deficit-to-GDP ratio of 3 percent by 2028. The target has been revised up to 3.7 percent of GDP recently. Achieving this fiscal consolidation target, while

¹ Prepared by Supriyo De (FAD) and Yinqiu Lu (APD).

² IMF TA on Tax Revenue Forecasting and Analysis, 2023.

safeguarding essential spending such as social spending and infrastructure development, requires a reinforcement of revenue collection efforts.

3. Estimates indicate that the overall VAT gap for the Philippines has persisted at around 6 percent of GDP, indicating a need for tax policy and administration improvements. VAT policy gap was estimated by the World Bank (2012-2020) at between 2.9 and 3.2 percent of GDP. Earlier, IMF's Revenue Administration Gap Assessment Program (RA-GAP) estimated the policy gap at 2008-2015 between 2.8 and 3.2 percent of GDP. The VAT compliance gap estimate of the World Bank (2012-2020) was between 2.9 and 3.3 percent of GDP while IMF's RA-GAP (2008-2015) estimate was between 3.0 and 3.9 percent of GDP.³ Per IMF estimates, between 2008 and 2015, the compliance gap came down from 3.9 to 3.0 percent of GDP, possibly reflecting the reform momentum of that period. The later World Bank estimates showed a slower compliance gap decline from 3.2 percent of GDP in 2016 to 2.9 percent of GDP in 2020. This compliance gap indicates the need to focus on tax administration reforms.

4. A 2024 IMF TA on VAT diagnostic and strategy for reforms highlights the need for key reforms to improve compliance, ease refunds, and boost revenues.⁴ It notes that a key to enhancing VAT collection is the adoption of a Compliance Risk Management (CRM) approach in all the Bureau of Internal Revenue (BIR) processes.⁵ The recent Ease of Paying Taxes Act has removed personal liability of BIR staff and introduced a risk-based approach to the approval of VAT refunds, paving the way for eliminating adverse incentives to paying refunds. Consequently, the diagnostic suggests proper implementation of the new law and putting less emphasis on BIR internal revenue targets as next steps in rectifying and building taxpayer's confidence in the VAT refund process. The diagnostic also acknowledges the series of BIR initiatives to deepen use of digital tools. This combination of improved compliance due to better CRM-based targeting of taxpayer segment-specific interventions, better voluntary compliance due to greater taxpayer confidence in refunds, and digital underpinnings including third-party information sharing and analytics can help reduce the VAT gap.

³ Assuming full taxpayer compliance, *policy gap* is the amount of potential tax not realized under the current policy structure relative to the comprehensive policy structure. It reflects the difference between the potential collections under the comprehensive policy structure and potential collections under the current tax structure (assuming full compliance in both cases). In the comprehensive VAT structure, all supplies are taxable at the standard rate. Compliance gap is the amount of potential tax not realized under the current policy structure due to less than full compliance. It is the difference between actual VAT collected under the current policy structure and the potential VAT estimated under the assumption of full taxpayer compliance.

⁴ Artur Swistak, Patricio Barra, Yomna Gaafar and Rita de la Feria, 2024, "VAT Diagnostic and Strategy for Reform", IMF FAD Technical Assistance Report, May 2024.

⁵ Compliance is the degree to which taxpayers meet their obligations, whether voluntarily or through efforts by the tax administration to enforce compliance. CRM is a methodology used to identify compliance risks within the taxpayer population. Identifying the largest relative risks to the tax base allows tax administration leaders to make informed decisions on how to address the noncompliance and promote higher rates of voluntary compliance over the long term. The objective of CRM is to manage and improve compliance across all four key taxpayer obligations of registration, on-time filing, correct reporting, and on-time payment. Revenue Administration: Compliance Risk Management: Overarching Framework to Drive Revenue Performance (imf.org).

5. Upon request by the authorities, an IMF-led Tax Administration Diagnostic Assessment Tool (TADAT) assessment mission with participation of World Bank and ADB visited Manila in May-June 2024. This mission provided an assessment baseline of tax administration performance that could be used to determine reform priorities.⁶ The BIR has made notable improvements in several areas since the 2015 TADAT. The mission found that large improvements in e-filing and collection systems are driven by digitalization. Further digitalization initiatives such as internal revenue information system (IRIS) and online registration and update system (ORUS), and implementation of enterprise risk management (ERM) are good steps forward.

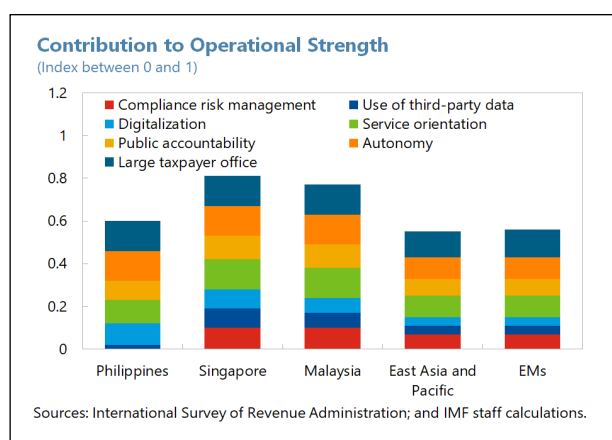
6. Despite some improvements, recent data and diagnostics indicate that the overall performance remains well below international good practice and regional peers. The removal of all CRM mechanisms in 2017 adversely impacts tax administration functions which require specialized taxpayer segmentation and related data analysis. Continuing the digitalization modernization journey and reintroducing CRM mechanisms will help improve performance. Introducing robust and systemic data analytics and matching of third-party data to drive compliance and revenue outcomes will also help improve performance.

Estimated Revenue Yields from Reforming Tax Administration

7. Improving tax administration will yield an increase in tax revenues but it will take time. According to a recent IMF cross-country analysis ([Adan et al, 2023](#)), a tax administration whose overall strength level improves from the 40th percentile to the 60th percentile could yield an increase in tax revenues by 1.8 percent of GDP. However, it could take time for the full impact to be realized. The analysis shows that tax yields are increasing over time to more than 3 percent of GDP after the sixth year following a far-reaching and comprehensive reform.

8. The Philippines currently lags leading Asia-Pacific regional economies not only in the absence of an effective CRM framework, but also in use of third-party data, and digitalization.

An IMF cross-country analysis ([Adan et al, 2023](#)) allows calculation of a tax administration operational strength index on a scale of 0 (lowest) to 1 (highest) based in International Survey of Revenue Administration (ISORA) data. The latest Philippines overall index score of 0.59 is on par with the East Asia and Pacific Region (0.57) and emerging markets (0.59). However, it lags behind regional comparators like Malaysia (0.78) and Singapore (0.86). A key factor in it is the lack of an effective CRM framework eroding about 0.10 from the



⁶ The 2024 TADAT focuses on core taxes, i.e., value-added tax, corporate income tax, personal income tax, and pay-as-you-earn, which are administered by the BIR. It does not examine the Bureau of Customs (BOC), which collects about a quarter of total tax revenues in the Philippines.

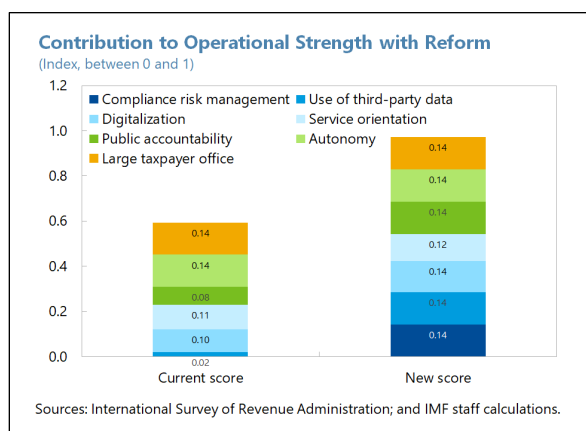
Philippines score. Singapore and Malaysia also have higher use of third-party data with scores of 0.09 and 0.07, respectively, compared to Philippines' score of 0.02. Singapore's digitalization score of 0.13 is also higher than Philippines' score of 0.10. If the Philippines were to focus on these areas with a reform timeframe of about 7 years, its score could be raised closer to Singapore levels.

9. Key reforms in CRM, third-party data use, risk-based data analysis, targeted interventions, and digitalization could significantly raise the Philippines' tax-to-GDP ratio.

CRM would involve segmentation of taxpayers based on selected characteristics and applying appropriate compliance treatments and interventions. Tax audits and on-site verifications, being the most expensive of treatments, should be reserved for only the highest-risk cases, such as deliberate tax evasion or tax avoidance by large enterprises and other persistent non-compliers. Less intrusive and inexpensive methods like third party data-matching verification, filing reminders, and use of digital or social media channels could be used to influence low-risk compliance issues such as inadvertent mistakes in tax computation or missing payments or filing deadlines by small enterprises or individuals. Third-party data and risk-based data analysis of data already available with the BIR would allow a wider range of compliance techniques including desk-based verification, freeing valuable resources to focus on the higher-risk non-compliance cases. It would result in increased efficiency of tax administration efforts and also compliance improvements due to more appropriate and tailored compliance treatments. These processes would be catalyzed by enhancing the use of digital tax administration tools. The experiences of the Philippines and other countries offer insights on the scope for revenue improvements from tax administration reforms. For example, assuming that the impact of CRM, third-party data matching, and related reforms are similar to the Philippine reforms in the 2008-2015 period that achieved a VAT Gap decrease of 0.9 percent of GDP, and that the impact of mandatory e-invoicing and other digitalization reforms is similar to Peru's experience at 0.9 percent of GDP, the total revenue gains from an ambitious reform implementation could be as high as 1.8 percent of GDP.

10. A sequenced reform plan could be implemented in a phased manner to achieve major improvements in CRM, use of third-party data, public accountability, and digitalization. The

BIR has already made considerable preparations for enhanced digitalization. In terms of priority and ease of implementation, these should be prioritized at the earliest and implemented over the next two years. Implementation of CRM, use of third-party data, and enhanced analytics are also high priority and could be implemented in parallel as resources and skills in these new techniques develop, governance issues are addressed and any necessary legislative changes are promulgated (for example, allowing automated data matching). Moves towards these new CRM based approaches should be commenced at the earliest with a phased implementation timeframe of around 5 years. Increasing public accountability and service orientation would also be



helpful and will be enhanced through data driven verification techniques. However, various reforms need to be implemented in a coordinated manner.

Table 1. Philippines: A Sequenced Reform Plan		
	Priority-Low	Priority-High
Implementation-More Difficult	Public Accountability	Compliance Risk Management Use of Third-Party Data and Enhanced Analytics
Implementation-Easier	Service Orientation	Digitalization

11. Political support and buy-in from stakeholders, appropriate administrative structures, legal and procedural adjustments, addressing privacy and data security, improved coordination, and analytical capabilities need to be secured for reform success. The CRM approach would require strong political buy-in and support from stakeholders. For this, extensive consultations and communication should be undertaken from an early stage. BIR's current decentralized structure with audit selection at regional level will also need to be adjusted. Third-party information sharing may require legal and procedural changes. Enhanced digitalization will require safeguards and systems to ensure privacy and data security. Reforms also need major coordination and synergies to ensure success. The BIR needs to focus on adequate analytical staff and capabilities. Also, while it does not have the institutional mandate to carry out certain types of analytics such as tax gap estimation, it could be addressed by other institutions such as the National Tax Research Center.

Digitalization

12. The Philippines has embraced digitalization to enhance the effectiveness of tax administration. Digitalization has resulted in high levels of electronic filing. Recent and planned advances in digitalization include the IRIS, ORUS, electronic filing and payment (eFPS), taxpayer ledger portal, and online applications for permits. ISO certification for service standards is being expanded and a new ERM system has been rolled out. The new IRIS helps make BIR's vast data stores more accessible for monitoring internal practices and key performance indicators (KPIs).

13. Greater use of e-services and web-based taxpayer assistance systems can help reduce the cost of compliance and enhance compliance for individuals and small businesses. Such measures could include: (a) simplified web-based returns and filing/payment for small micro taxpayers, (b) tools and calculators on the administration's website, (c) integrated taxpayer accounts that provide a "whole" of taxpayer view across major taxes, (d) online services for taxpayers (e.g., to update records; access accounts/history; request arrangements to pay), (e) electronic invoicing system to support businesses, (f) digital mailbox capability for electronic communication with taxpayers, (g) electronic management of tax arrears, and (h) electronic application, processing and tracking of tax disputes. If fully implemented in consonance with CRM, third-party information matching, greater transparency, and service improvements, potential gains in the medium term (3-5 years) could be as high as 1.8 percent of GDP.

14. Recent studies show that digitalization measures like e-filing, e-invoicing, electronic fiscal devices, and e-registration enhance revenues. Using cross-country data, [Nose and Mengistu \(2023\)](#) explore the potential impact of selected digital technologies on tax collection and compliance. Their results show that greater digital adoption in tax administration is associated with larger tax revenue collection and the reduction in the VAT compliance gap. Increasing e-filing adoption by half could boost tax revenues by 1.6 percent of GDP. Mandatory implementation of key digital technologies and services amplifies their impact on revenue mobilization. The impact of e-filing on revenues is larger (close to 5 percent of GDP) when e-filing is mandatory. A caveat is that the adoption of digital technologies and services in tax administration (as measured by ISORA and TADAT data) is slow moving and correlated with country-level characteristics.⁷ Country specific case studies show that higher revenue yields from specific digitalization measures are possibly due to favorable country characteristics.

15. Philippines BIR already has e-registration and e-filing availability, and e-invoicing is being piloted. The case study of Peru shows that moving from optional to mandatory e-invoicing can improve tax compliance. Peru had voluntary e-invoicing since the 2000s but moved to mandatory e-invoicing in 2013. Consequently, firms declared higher sales (by 6.6 percent) as well as higher deductions on the VAT paid for inputs (by 4.5 percent), which resulted in higher net VAT liability by 7.2 percent. Besides the direct impact of e-invoicing on adopting firms, the decision to adopt also encouraged a firm's trading partners to voluntarily embrace e-invoicing ([Nose and Mengistu, 2023](#)). Therefore, the Philippines could consider mandatory e-invoicing once the pilot is successful.

16. Complementary infrastructure, institutional quality, and human capital improvements are required to reap the full benefits of digitalization ([Nose and Mengistu, 2023](#)). Availability of electricity, high-speed internet, secure servers and appropriate information, and data security architecture are essential. They also need to be underpinned by robust institutional quality attributes to ensure fully implementing the new ERM framework, greater internal audit activity, regular external audit specific to digital systems, and regular monitoring by senior management. It is also essential to enhance the skills sets of existing staff and re-orient the human capital mix of the BIR to more data and analytic capabilities.

⁷ International Survey on Revenue Administration (ISORA) is the product of a partnership of the Asian Development Bank (ADB), Inter-American Center of Tax Administrations (CIAT), IMF, Intra-European Organization of Tax Administrations (IOTA) and OECD – and the active participation of tax administrations around the world. Revenue Administrations Fiscal Information Tool - Home - ISORA (rafit.org).

Table 2. Philippines: Calibrated Tax Revenue Gains for Specific Digital Tools in the Literature

Case Study	Digital Tool	Country	Estimated Coefficient (on taxable income)	Revenue (in percent of GDP)
Santoro, Amine, and Magongo (2022)	e-filing	Eswatini	40% for PIT 80% for CIT	4.00 1/
Bellon and others (2022)	e-invoice	Peru	8.2%	0.93
Fan and others (2020)	e-invoice	China	12.9%	1.56
Mascagni, Mengistu, and Woldeyes (2021)	EFDs	Ethiopia	12.0%	0.88
Eissa and Zeitlin (2014)	EFDs	Rwanda	6.3%	0.68

Source: Nose and Mengistu, Exploring the Adoption of selected Digital Technologies in Tax Administration (2023).

Note: Impact on tax revenue is computed based on the estimated elasticity on taxable income and each country's level of tax revenues (in percent of GDP). CIT = corporate incomes tax; EFDs = electronic fiscal devices; PIT = personal income tax.

1/ The impact is on taxable income. Santoro, Amine, and Magongo (2022) also estimated the impact on actual tax payment, which finds insignificant impact on tax payments due to the country's low enforcement capacity. The mixed result on actual tax payments suggests that the size of revenue gains from RA digital tools hinges on the complementary factors (for example, the capacity of the tax authority).

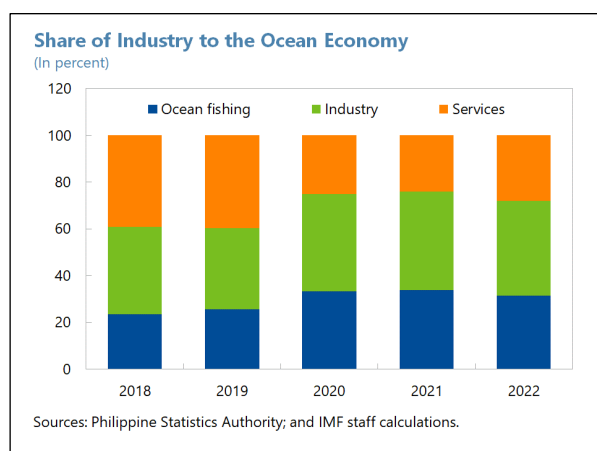
Annex VII. Harnessing the Economic Potential of the Philippines' Blue Economy¹

The Blue Economy (BE) is essential to attaining inclusive growth and sustainable development in the Philippines. In this annex, BE covers traditional sectors (fisheries and tourism) as well as emerging sectors (marine technology and renewable energy). Based on the Philippine Statistics Authority (PSA)'s Philippine Ocean Economy Satellite Accounts (POESA), ocean-based activities (ocean fishing, industry, services sectors) posted an average of 4.1 percent of the country's Gross Domestic Product (GDP) from 2018 to 2022. Improving management of fish stocks, increasing fishery productivity, and reducing post-harvest losses of fish and fishery products can support employment and reduce poverty in the fisheries sector. Conserving marine ecosystems plays a huge role in protecting coastal communities from the effects of climate change. Promoting the sustainable development of the tourism industry can boost economic activity, while ensuring the protection of ocean health. Finally, the Philippines can explore and invest in emerging sectors to further unlock the BE's economic and development potential.

Background

1. The Blue Economy (BE) holds one of the keys to achieving inclusive growth and sustainable development in the Philippines. BE

is an integrated, cross-sectoral, and cross-stakeholder approach that creates value-added from oceans and seas and covers traditional and emerging sectors. The Philippines adopted the definition of BE from the Changwon declaration, which advocates the protection of the country's oceans and coasts and enhancement of its potential contribution to sustainable development, including improving human well-being, and reducing environmental risks and ecological scarcities.



2. From 2018 to 2022, ocean-based activities posted an average of 4.1 percent share of the country's GDP. Ocean fishing² and tourism-related services activities³ contributed an average of 30 percent and 11 percent of the total, respectively. In 2019, the EMERGING Database shows that

¹ Prepared by Marius Torres (APD).

² Ocean fishing pertains to fishing on open seas and sea-based aquaculture. It is limited to commercial, marine municipal, and marine aquaculture.

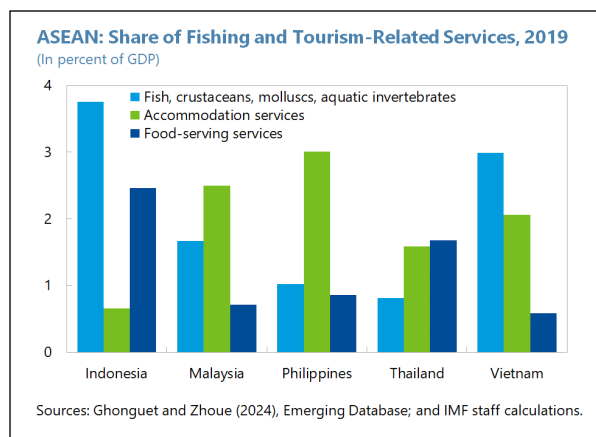
³ Tourism-related services are (i) coastal-accommodation and food and beverage services activities, and (ii) coastal recreation. In terms of data, the former is sourced from Department of Tourism (DOT)'s tourism direct GVA of accommodation and food and beverage serving services, while the latter is source from DOT's tourism direct GVA of recreation (Source: PSA' POESA).

the Philippines lags its Southeast Asian (SEA) neighbors in terms of fishing but performs strongly in tourism-related services.⁴

3. The Philippine Government promotes the BE through its integration in its Medium-term Development Plan as well as legislative and agencies' priorities.

The Philippine Development Plan (2023-2028) aims to harness the full potential of the BE by boosting productivity and resiliency of the fishery sector, and creating enabling policies that will provide more livelihood and economic opportunities for the poor and vulnerable coastal communities. Meanwhile, the BE Act is included in the legislative priorities of the Marcos Administration. The approved House Bill No. 9662 and Senate Bill No. 2450 both include fisheries and marine and coastal tourism in their priority strategic and sustainable ocean-related economic activities.

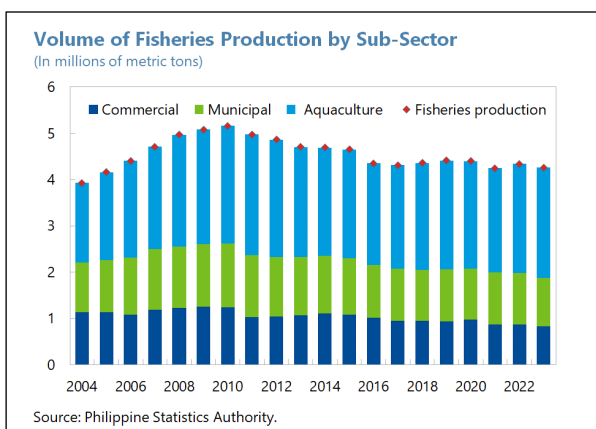
Additionally, the Department of Environment and Natural Resources (DENR) joined the Blue Carbon Action Partnership of the World Economic Forum to further strengthen the country's coastal ecosystems, boost blue carbon conservation, and mitigate climate change. Finally, the Securities and Exchange Commission (SEC) issued a framework for the issuance of blue bonds to encourage the private sector to invest in healthy oceans and blue economies.



Fisheries Industry

4. Notwithstanding the declining contribution of the fisheries industry to the country's economic growth, fish-food security and poverty alleviation are among the government's priorities.

Achieving the country's goal of 100 percent fish-food sufficiency by 2028 will require improving management of fish stocks, increasing fishery productivity, and reducing post-harvest losses of fish and fishery products. In 2023, the World Bank approved the Philippine Fisheries and Coastal Resiliency Project (FISHCORE), which aims to support the Philippine government in designing and establishing improved fisheries management systems in two selected Fisheries Management Areas (FMAs)



⁴ The EMERGING database is an open-source and highly disaggregated multi-regional input-output (MRIO) table compiled by a consortium of universities. The EMERGING database does not isolate marine part of sectors. Its fishing and tourism-related services (accommodation and food-serving services) have different scope and coverage from the PSA's POESA.

encompassing coastal and municipal waters. These efforts can also help support employment in the fisheries sector, which currently account for approximately 1.6 million jobs (4 percent of labor force), and reduce poverty as according to the PSA, fisherfolks had the highest poverty incidence among the basic sectors in 2021 at 30.6 percent. Further, emerging fishing technologies can help solve illegal, unreported, and unregulated (IUU) fishing. The CAWIL.AI, an AI coupled with underwater tools, enables detailed analyses and monitoring of coastal and marine ecosystems as well as fisheries supply chains, while the recently launched Fisheries Sharing Hub on Investigation, Enforcement, Litigation, and Detection System (FishSHIELDS) to combat IUU fishing can equip enforcers to identify, prevent, and apprehend cases of IUU fishing and other violations within the country's waters.

5. Conserving marine ecosystems plays an integral role in protecting coastal communities from the effects of climate change. Climate change impacts on marine capture fisheries in the Philippines is projected to cause a 9 percent (mitigation scenario) to 18 percent (extreme scenario up to 2060) decrease in fisheries' GDP.⁵ Cultivating coastal ecosystems (salt marshes, mangroves, and seagrass beds) will help absorb large quantities of carbon dioxide from the atmosphere and store it, protect communities and infrastructure against intensifying storms, and provide co-benefits to people and nature. Considering that overfishing is a major threat to ocean health, addressing overexploitation in the near term could be key in promoting the future sustainability of the fisheries sector in the face of climate change (mitigation). Fishermen can also diversify their portfolio strategies to enhance their adaptive capacity and minimize variability in their income (adaptation).

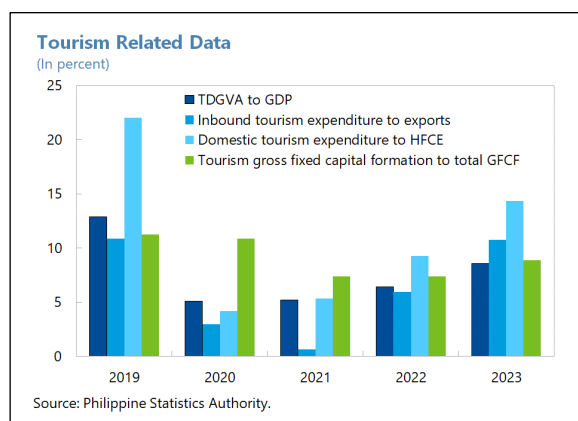
Tourism Industry

6. The sustainable development of the tourism industry can further boost economic activities by creating demand for both consumption and investment. Recent data from PSA

shows that the share of domestic tourism expenditure to Household Final Consumption Expenditure has been increasing since 2021, while the share of tourism Gross Fixed Capital Formation (GFCF) to total GFCF has improved in 2023.

Despite the sector's robust contribution to economic growth, the country's ocean health must be protected and conserved to fully maximize its potential. The Philippines' 2023 Ocean Health Index score of 58 out of 100, which is below the global average of 73, shows that the country

needs to be more sustainable in maximizing its ocean and marine resources such as tourism and recreation. Moreover, construction of climate-resilient infrastructures is equally important to lessen the negative economic and social impacts of worsening climate change and tropical cyclones on



⁵ Suh, D., & Pomeroy, R. (2020, April 16). Projected Economic Impact of Climate Change on Marine Capture Fisheries in the Philippines. Retrieved from <https://www.frontiersin.org/articles/10.3389/fmars.2020.00232/full>.

tourism activity. As such, multi-agency collaboration is needed in the development, implementation, and monitoring of policies to ensure that tourism development protects the marine environment, safeguards coastal communities from economic shocks, and alleviates poverty.

Emerging Industries

7. The Philippines can explore and invest in emerging industries, including marine technology and marine renewable energy, to unlock the BE's economic and development potential. The rich marine biodiversity of the country is a great source of biologically active compounds for various medical/pharmaceutical purposes and anticipated viral and bacterial endemics and epidemics; various types of ocean energy such as wave and tidal could be derived from the country's vast marine waters. With this, ocean energy can further enhance sustainable tourism/ecotourism through private establishments' implementation of low-impact operations, while fisheries manufacturing supply chain can benefit from additional energy sources.

Annex VIII. Integration of Capacity Development and Surveillance¹

Context

1. **The Philippine economy continues to perform well despite external challenges and policy tightening.** Sustained reforms and prudent macroeconomic policies in recent years have supported strong economic growth, making the Philippines one of the best performing economies in the Asia and Pacific region. Following a strong post pandemic rebound in 2022, growth moderated in 2023 to 5.5 percent, reflecting the confluence of global shocks, pent-up demand normalization, higher inflation, and tighter policy settings. Growth is expected to remain at around 6-6.3 percent over the medium term, driven by robust private consumption and investment, although it remains subject to downside risks linked to the global economic slowdown, higher-for-longer interest rates in advanced economies, and trade disruptions stemming from geopolitical tensions.
2. **The authorities' socioeconomic policy agenda—focused on infrastructure, education, and health—aims to harness benefits from the demographic dividend and set the stage for higher and more equitable growth.** Poverty and inequality remain high, and the administration intends to reduce the poverty rate from 15.5 percent of the population in 2023 to 9 percent by 2028. Enhancing access to quality education and promoting the acquisition of new skills will be key to develop the country's human capital. In addition, addressing climate change is of paramount concern, as the Philippines is one of the countries most exposed to rising sea levels and the increasingly severe impact of cyclones and typhoons. Financing the authorities' ambitious adaptation and mitigation objectives remains a challenge.
3. **The Philippines has made considerable use of Fund capacity development (CD) resources and shown a good track record in using these resources to support its policy and reform agenda.** Over the past decade, Fund CD has focused on monetary policy frameworks, financial sector stability and integrity, capital market development, macroeconomic forecasting, tax policy and administration, public financial management, treasury management, and government finance statistics (GFS). The authorities have made considerable progress in many of these areas, as evidenced by the strong macroeconomic fundamentals that support the country's development objectives.

Forward Looking CD Agenda

4. **Reforms in these areas will remain as priorities for CD, which should be fine-tuned to address emerging challenges in a volatile external environment.** The recent slowdown in the global economy and tightening of policies in advanced economies have increased risks to the banking system and the corporate sector. Policy responses to the pandemic also diminished the country's policy buffers, which over the medium term may pose challenges. Fund CD will therefore focus on enhancing the Philippines' capacity to manage macroeconomic and financial risks and rebuild policy buffers. Moreover, the authorities are aiming to build better and more as part of their

¹ Prepared by Ragnar Gudmundsson (APD).

recovery strategy, including by accelerating the digitalization of the economy to improve resilience and inclusion. Along with other emerging issues such as climate change adaptation and mitigation, these should be considered as priorities for Fund CD in the future.

5. The Fund's surveillance focus is well aligned with the authorities' policy and reform agenda. The integration of CD with surveillance suggests the following workstreams as priorities:

- *Implementation of monetary policy.* Inflation forecasting and the integrated analysis of monetary and other policies will remain a priority, including through adoption of the BSP's Policy Analysis Model for the Philippines as its core forecasting model, developed with assistance from ICD. MCM is also supporting the BSP's analysis of the inflation target and expectations with applications of the Quantitative model for the Integrated Policy Framework in the Philippine context. Another priority remains central bank communication. Further assistance may be needed to help the BSP improve its communication on financial stability, digital money and cybersecurity, and climate-related financial risks building on the recent Sustainable Finance Taxonomy.
- *Financial supervision and regulation.* The BSP launched a major initiative to strengthen its bank supervisory framework and is making progress in implementing the recommendations of the 2021 FSAP. The Fund should continue to support these efforts, including on conglomerate supervision and the conduct of supervisory colleges, resolution planning and resolvability assessments, developing a supervisory framework for operational resilience, and developing stress-testing and climate risk assessment capacity.
- *Bank resolution, crisis management, and corporate restructuring.* The FSAP has highlighted the potential stress facing the banking and corporate sectors, which could be exacerbated by higher-for-longer interest rates. MCM provided recommendations to enhance the bank resolution framework in 2023 and now stands ready to support the BSP's recently established Technical Working Group on Resolution during the implementation phase. IMF TA was also provided to help the BSP develop its lender of last resort (LOLR) and collateral frameworks and follow up assistance could focus in 2025 on the implementation of a LOLR operational framework.
- *Systemic risk analysis.* More advanced training and IMF TA on financial market analysis and stress testing could help strengthen the BSP's capacity in the analysis of financial stability and macro-prudential policies, especially in the context of addressing the risks to the banking system. Building on enhanced coordination in the context of conglomerate supervision, further assistance may also be needed to develop the SEC's own stress-testing capabilities.
- *Debt management and capital market development.* Rising public debt and the increasing need for fiscal financing heighten the need to strengthen capacity in debt management and to accelerate capital market development. The authorities have expressed interest in continued Fund CD in these two areas. Support will continue to focus on the implementation of advice to improve liquidity management and develop Open Market Operations instruments. Close

coordination with the BTr will support BSP efforts to develop a benchmark yield curve for the local currency government bond market. Initiatives to develop innovative financial instruments will moreover benefit from the support recently provided to the BSP to launch a pilot wholesale CBDC.

- *Tax policy and administration.* Public debt exceeds the authorities' indicative threshold of 60 percent of GDP. To rebuild policy buffers and support a medium-term debt strategy, the authorities will need to mobilize more revenues by strengthening capacity in tax policy and revenue administration. Following a tax policy scoping mission in 2023 which helped define a medium-term policy reform agenda, FAD delivered a comprehensive diagnostic of the Philippine VAT, including recommendations to improve its design, legal framework, and administration. Further support is expected with an assessment of tax expenditures and options for their rationalization, a review of excise taxation and wealth taxation, and engagement on a Medium-Term Revenue Strategy. The revenue administration reform agenda will build on the recently finalized TADAT assessment and possible follow-up support on related reforms, priorities, and sequencing.
- *Public financial management (PFM).* Continued improvements in PFM will help create fiscal space by raising the efficiency of public expenditures on infrastructure investment and social services. FAD recently supported the oversight of government-owned and controlled corporations (GOCCs), the management of public private partnerships (PPPs), and the digitalization of financial management information systems. In a context of increasing investment outlays that calls for expenditure efficiency, FAD is planning to update the 2018 Public Investment Management Assessment (PIMA). Updating the 2018 PIMA will also offer an opportunity to apply the Climate PIMA module to the Philippines in constructing resilient infrastructure and adopting green PFM practices.
- *Macro-fiscal frameworks.* ICD is assisting the Department of Finance through its Office of the Chief Economist to develop capacity in macroeconomic analysis and macro-fiscal modeling. The focus is currently on building the capacity of technical staff at the Department of Finance (DOF) to conduct macroeconomic forecasting and policy analysis through developing and using a macroeconomic projection tool (MPT) for regular forecasting and policy analysis. Future support could extend to training on the use of a Dynamic Stochastic General Equilibrium model for policy analysis, including to model the transmission channels and quantify the impact of priority legislative measures. Following the delivery of training on revenue forecasting in 2023, further support may be requested from FAD to incorporate nowcasting methods and the use of leading monthly indicators on GDP to refine the DOF's revenue forecasts.
- *Government finance statistics.* Strengthening of government finance and public sector debt statistics will contribute to enhanced budget transparency and accountability. Since 2023, fiscal data used in the Article IV report is aligned with the GFSM 2014 framework. The IMF Statistics Department will continue providing technical assistance to the Philippines authorities in GFS and Public Sector Debt Statistics (PSDS). Significant progress has been made in compiling and disseminating GFS, leading to the submission of general government annual data to the GFS

yearbook and quarterly data to International Financial Statistics since July 2024. In addition, PSDS improvements under way will ensure consistency in the publication of external debt by the BTr, BSP, and DOF, enable the DOF to accurately derive domestic debt, and expand the coverage of quarterly PSDS to include domestic debt. The review of GOCC classification is ongoing to allow some of the nonmarket-based GOCCs to be included in the general government sector.

- *Anti-money laundering and combating financing of terrorism.* The authorities have substantially completed its action plan to exit from the FATF grey list of jurisdictions with strategic AML/CFT deficiencies. Looking forward, the Fund stands ready to assist the authorities in the context of the fourth FATF Mutual Evaluation of the Philippines that will take place in 2027.

Annex IX. Data Issues¹

Table 1. Philippines: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	B	B	B	B	B	B	B

Detailed Questionnaire Results

Data Quality Characteristics						
Coverage	B	B	B	B	A	
Granularity 3/	B		A	B	B	
			A		A	
Consistency			B	B		B
Frequency and Timeliness	A	A	A	A	B	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.

1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.

2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).

3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provision is broadly adequate for surveillance with some shortcomings in real, external sector, fiscal, and central bank statistics. The real sector has limited coverage of the informal/illegal economy. Distinction between private and public gross fixed investment is not readily available. Some external sector statistics present relevant shortcomings regarding coverage as well as consistency across datasets, most notably direct investment equity and debt, and portfolio debt securities. The coverage of general government spending is affected by the lack of data for the barangays. There is a need to improve the techniques to allow nonfinancial transactions to reconcile accurately with financial transactions and the balance sheet to show stock-flow reconciliations. Infrequent reporting frequency of the monthly central bank assets and liabilities statistics can lead to inaccurate assessment of the risks.

Changes since the last Article IV consultation. The authorities are making progress to review the financial statements of the GOCCs for some of them to be included in the general government statistics, further develop the public sector contribution to the balance sheet approach, and convert external debt based on jurisdiction of holder. RREPI data quality improves overtime due to continued efforts of the BSP to apply additional validation as part of the quarterly reporting template. Works is underway to improve the accuracy of quarterly GDP data, the coverage of the public corporation sector, the adoption of benchmark technique to reconcile quarterly and annual national account estimates, and the development of high-frequency indicators of economic activities. The PSA is working to expand PPI coverage to include service sector.

Corrective actions and capacity development priorities. The terms of reference for the eSRE system is currently under review. The system aims to streamline fiscal data collection from barangays. Efforts are underway to draft implementing rules and regulations for collection and publication of data on climate and the blue economy. After successful pilot phase, working on completing a disaggregated GDP measures to include provincial disaggregates. Plans are underway to rebase GDP to 2023 in the coming years.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff use fiscal data to estimate the size of public investment and back out private gross fixed investment in the real sector statistics.

Other data gaps. Limited coverage of the informal/illegal economy and linkage within and between conglomerates. Possible update of the Informal Sector Survey from PSA. The latest survey was in 2008.

¹ Prepared by Agnes Isnawangsih (APD).

Table 2. Philippines: Data Standards Initiatives

Philippines subscribes to the Special Data Dissemination Standard (SDDS) since August 1996 and publishes the data on its National Summary Data Page. The latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>).

Table 3. Philippines: Table of Common Indicators Required for Surveillance
As of November 8, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data ⁴	Frequency of Reporting ⁶	Expected Frequency ^{6,7}	Philippines ⁸	Expected Timeliness ^{6,7}	Philippines ⁸
Exchange Rates	8-Nov-24	8-Nov-24	D	D	D	...	...	1
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹	Oct-24	Sep-24	M	M	M	30	1W	30
Reserve/Base Money	Sep-24	Nov-24	M	M	M	30	2W	14
Broad Money	Sep-24	Nov-24	M	M	M	30	1M	30
Central Bank Balance Sheet	Sep-24	Nov-24	M	M	M	30	2W	14
Consolidated Balance Sheet of the Banking System	Sep-24	Nov-24	M	M	M	30	1M	30
Interest Rates ²	8-Nov-24	8-Nov-24	D	D	D	...	...	1
Consumer Price Index	Oct-24	Nov-24	M	M	M	30	1M	5
Revenue, Expenditure, Balance and Composition of Financing ³ -General Government ⁴	2023	2024	A	A	A	365	2Q	180
Revenue, Expenditure, Balance and Composition of Financing ³ -Central Government	Sep-24	Oct-24	M	M	M	30	1M	21
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	Sep-24	Oct-24	M	M	Q	30	1Q	28
External Current Account Balance	Jun-24	Sep-24	M	Q	Q	90	1Q	77
Exports and Imports of Goods and Services	Sep-24	Nov-24	M	Q	M	30	8W	45
GDP/GNP	Q3/2024	Nov-24	Q	Q	Q	90	1Q	60
Gross External Debt	Q2/2024	Sep-24	Q	Q	Q	90	1Q	90
International Investment Position	Q2/2024	Sep-24	Q	Q	Q	90	1Q	90

¹ Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

² Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³ Foreign, domestic bank, and domestic nonbank financing.

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 Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

⁷ Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

⁸ Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (<https://dsbb.imf.org/>). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".



PHILIPPINES

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 15, 2024

Prepared By

Asia and Pacific Department

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FUND RELATIONS

(As of October 31, 2024)

Membership Status: Joined December 27, 1945 and accepted the obligations under Article VIII, Sections 2, 3, and 4 on September 8, 1995.

General Resources Account

	SDR Millions	Percent of Quota
Quota	2,042.90	100.00
IMF holdings of currency (holdings rate)	1,529.27	74.86
Reserve tranche position	513.75	25.15
Lending to the Fund		

SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	2,795.99	100.00
Holdings	2,857.08	102.18

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
Stand-by	04/01/1998	12/31/2000	1,020.79	783.23
EFF	06/24/1994	03/31/1998	791.20	791.20
Stand-by	02/20/1991	03/31/1993	334.20	334.20

Projected Payments to Fund: None.

Exchange Rate 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 has accepted the obligations under Article VIII, Section 2(a), 3, and 4 of the IMF's Articles of Agreement, and maintains

an exchange system 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 in accordance with Executive Board Decision 144-(52/51).

Article IV Consultation

Philippines is on the standard 12-month cycle. The previous Article IV consultation discussions were held during September 21-October 3, 2023. The Executive Board Meeting for the 2023 Article IV consultation was held on November 27, 2023 ([IMF Country Report No. 23/414](#)).

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 during October 2021-October 2024. Mr. Dennis Botman, stationed in Jakarta, Indonesia, will become the IMF's Regional Representative for the Philippines starting from January 2025.

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>