



PHILIPPINES

FISCAL TRANSPARENCY EVALUATION

June 2015

This Fiscal Transparency Evaluation report on the Philippines was prepared by a staff team of the International Monetary Fund. It is based on the information available at the time it was completed on May 2014.

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International Monetary Fund
Washington, D.C.



INTERNATIONAL MONETARY FUND

FISCAL AFFAIRS DEPARTMENT



PHILIPPINES

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Prepared by Johannes Mueller, Renaud Duplay, Luc Eyraud, Jason Harris, Murray Petrie,
and Sagé de Clerck

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EXECUTIVE SUMMARY

Improving fiscal transparency has been a priority in the Philippines over recent years. The government's public financial management reform strategy has helped initiate a wide variety of reforms, which are beginning to bear fruit. In light of this, the evaluation against the 36 principles of the draft Fiscal Transparency Code (Annex IV) is broadly favorable:

- **Fiscal reporting** is relatively comprehensive, frequent and timely, with many areas of good and advanced practices. Coverage of public sector units' stocks and flows is well-developed but coverage of the public sector as a whole lacks consolidated data for the public sector and general government subsectors. Comparability of fiscal data from various reports and of budget outturns against the original budget is not always possible, reflecting a fragmentation of agencies involved. While audits of individual agencies' financial reports are undertaken, there is no separate independent audit of the consolidated Annual Financial Reports; this differs from international practice (Annex I).
- **Fiscal forecasting and budgeting** is generally good, with several recent improvements, especially regarding fiscal policy objectives, performance orientation, public participation, and the comprehensiveness and orderliness of the budget. However, budget credibility is undermined by the complexity and large flexibility of the annual budget framework which resulted in the non-rating of the principle on the supplementary budget (Annex II).
- **Fiscal risk analysis and management** is relatively strong in the Philippines compared to other countries, as shown by the publication of a comprehensive Fiscal Risk Statement with a relatively comprehensive collation of risks that could affect public finances. However, improvements are needed in a few areas, especially to capture of risks from guarantees and PPPs, assess the scope of tax expenditures, and introduce a longer-term perspective in the fiscal sustainability analysis (Annex III).

The evaluation reveals two cross-cutting issues spanning across the three FTC pillars:

- (i) the fragmentation of responsibilities for fiscal management in the public sector, and
- (ii) the complexity and flexibility of the budget system, which complicate fiscal reporting.

This report highlights twelve priority recommendations to address gaps in the Philippines' transparency practices. They focus on (i) publishing a consistent set of budget documents that provides the public with the means to track and assess the operations of government; (ii) reducing the discrepancy between initial budget plans and end-year fiscal outturns; (iii) integrating fiscal sustainability considerations into short-term policy decisions; (iv) delineating more rigorously the government's policy activities from purely commercial activities; (v) better allocating resources to priority areas over the medium term; and (vi) ensuring that consolidated financial reports are audited in a fully-independent manner.

Approved By
Gilbert Terrier

Prepared by staff and experts from the Fiscal Affairs and Statistics Departments led by Johannes Mueller and comprising Renaud Duplay, Luc Eyraud, Jason Harris, Murray Petrie, and Sagé de Clerck. Production assistance was provided by Veronique Catany and Ted Twinting.

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Acronyms

AFR	Annual Financial Report
BESF	Budget of Expenditures and Sources of Financing
BIR	Bureau of Internal Revenue
BOC	Bureau of Customs
BPF	Budget Priorities Framework
BSO	Basic Sector Organization
BSP	<i>Bangko Sentral ng Pilipinas</i>
BTR	Bureau of the Treasury
COA	Commission on Audit
COR	Cash Operations Report
CPBRD	Congressional Policy and Budget Research Department
CSO	Civil Society Organization
DBCC	Development Budget Coordination Committee
DBM	Department of Budget and Management
DOF	Department of Finance
FAITH	Foreign Aid Transparency Hub
FC	Fiscal Council
FPPO	Fiscal Policy and Planning Office
FRS	Fiscal Risks Statement
FTC	Fiscal Transparency Code
GAA	General Appropriations Act
GAAM	Government Accounting and Auditing Manual of 1992
GFS	Government Finance Statistics
GIFMIS	Government Integrated Financial Management Information System
GOCC	Government Owned and/or Controlled Corporations
GSIS	Government Service Insurance System
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standard
ISSAI	International Standards of Supreme Audit Institutions
LGU	Local Government Units
MFO	Major Final Outputs
MTBF	Medium-Term Budget Framework
NDRRMC/S	National Disaster Risk Reduction and Management Council/Strategy
NEDA	National Economic and Development Authority
NG	National Government
NGA	National Government Agencies
NSCB	National Statistical Coordination Board
OBS	Open Budget Survey
PEFA	Public Expenditure and Financial Accountability
PDIC	Philippine Deposit Insurance Corporation
PDP	Philippines Development Plan
PFM	Public Financial Management
PHP	Philippine Peso
PPP	Public Private Partnership
SAOB	Statement of Allotment, Obligation, and Balances
SSS	Social Security System
UACS	Unified Accounts Code Structure
WEO	World Economic Outlook

Preface

In response to a request from the Philippines' authorities, a mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited Manila, Philippines during the period January 29 to February 11, 2014 to conduct a pilot Fiscal Transparency Evaluation (FTE). The mission was led by Johannes Mueller and included Jason Harris, Luc Eyraud, Renaud Duplay (all FAD staff), Sagé de Clerck (STA staff), and Murray Petrie (FAD expert).

The objective of the FTE was to assess the Philippines' fiscal reporting, forecasting and budgeting, and fiscal risks analysis and management practices against the standards set by the IMF's draft *Fiscal Transparency Code* (Annex IV). The mission was organized around a series of discussions with Secretary Abad, Secretary Balisacan, Secretary Purisima, and staff from key stakeholder organizations in the Philippine administration including: the Department of Budget and Management; the Department of Finance; the Bureau of the Treasury; the Bureau of Internal Revenue; the National Economic and Development Authority; the Department of Public Works and Highways; the Bangko Sentral ng Pilipinas; the Commission on Audit; the National Disaster Risk Reduction and Management Council; the Philippine Deposit Insurance Corporation; the Social Security System; the Government Service Insurance System; the Philippines Health Insurance Company; and the Congressional Policy and Budget Research Department.

This report is based on the information available at the time it was completed in May 2014. The findings and recommendations set out in this report represent the views and non-binding advice of the IMF mission team and do not necessarily reflect the views of or a commitment by the government of the Philippines. Unless otherwise specified, the data included in the text, figures, and tables in the report are estimates of the IMF mission team and not official estimates of the government of the Philippines.

The mission would like to thank the Philippines' authorities for their excellent collaboration in the conduct of this pilot evaluation and for the frank and open exchanges of views on all matters discussed.

OVERALL ASSESSMENT

A. Scoring Philippines against the Fiscal Transparency Code

1. The Philippines has a relatively favorable assessment against the draft FTC (Table 1). Overall, the country complies with generally good practices across all pillars, although with several areas for improvement in each of them.

Fiscal Reporting





































Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance

2. High-quality reporting on public finances is fundamental to fiscal transparency. It provides a sound basis for analyzing and understanding the government's financial position and performance, for forecasting and budgeting, for designing appropriate fiscal policies and managing risks, and for holding governments to account. The global crisis, and the emergence of previously unreported fiscal deficits and debt, revealed that understanding of governments' fiscal positions was inadequate in many countries. There is now recognition that more timely data is required on the wider public sector and on a broader range of assets and liabilities, and that forecast and actual fiscal data needs to be presented on a comparable basis.

3. The Philippines exhibits several areas of good and advanced practice in fiscal reporting. Annual Financial Reports (AFRs), covering all national government entities and almost all local government (98 percent of units) and Government-Owned and/or Controlled Companies (GOCCs; 90 percent of units) are published by the Commission on Audit (COA) as three distinct datasets. However, while data for the consolidated central government is close to complete, consolidated data for the public sector and the general government as a subsector is not available, given an incomplete allocation of entities to each sector and limitations in source data. The publication of a full set of financial statements for the individual public sector entities provides data on flows, financial and nonfinancial assets and liabilities, and net worth. Good practice is achieved in presenting the annual financial reports within nine months of the end of the year. In-year cash operating reports for the national government are published monthly, generally within a month of the end of period.

4. Nonetheless, there are a number of weaknesses in the quality and integrity of fiscal data, partly reflecting multiple agencies having responsibilities for fiscal reporting. The ratings for statistical integrity and the comparability of fiscal data from different sources, as well as the inability to compare budget outturns against the original budget, are reflections of this. A specific legal basis for the production of fiscal statistics is lacking, and there is no single source of fiscal and financial information. The three major fiscal reports prepared by different agencies differ in scope and coverage and reveal several inconsistencies (Table 2).

Table 1. Heat Map on Fiscal Transparency

	Pillar I: Fiscal Reporting	Pillar II: Fiscal Forecasting and Budgeting	Pillar III: Fiscal Risk Analysis and Management
High Importance	 Audit of Annual Fin'l Statements	 Supplementary Budget	 Guarantees
	 Comparability of Fiscal Data	 Forecast Reconciliation	 Tax Expenditures
Medium Importance	 Coverage of Institutions	 Budget Unity	 Long-term Fiscal Sust. Analysis
	 Classification	 Medium-term Budget Framework	 Asset and Liability Management
	 Statistical Integrity	 Independent Evaluation	 Public-Private Partnerships
		 Investment Projects	 Budgetary Contingencies
Low Importance	 Coverage of Stocks	 Macroeconomic Forecasts	 Macro- economic Risks
	 Coverage of Flows	 Fiscal Legislation	 Specific Fiscal Risks
	 Frequency of In-Year Reporting	 Timeliness of Budget Documents	 Financial Sector Exposure
	 Timeliness of Annual Fin'l Statements	 Fiscal Policy Objectives	 Natural Resources
	 Internal Consistency	 Performance Orientation	 Environmenta l Risks
	 Historical Consistency	 Public Participation	 Subnational Governments
			 Public Corporations

Source: IMF Staff.

Table 2. Main Fiscal and Financial Reports in Philippines

Name of Report	Frequency	Content (including Scope and Basis)	Agency in Charge
Annual Financial Statements	Annually	Balance Sheet, Statement of Income and Expenses, Statement of Government Equity, Statement of Cash Flows, Notes to the Financial Statements for individual public sector units (modified accrual for Statement of Income and Expenses, and cash basis for Statement of Cash Flows)	Compiled by respective reporting agencies, and audited by Commission on Audit
Annual Financial Reports (AFR)	Annually	Revenue and expenses of NGAs, including Off-Budget Accounts (modified cash basis)	Commission on Audit
Statement of Allotment, Obligation and Balances (SAOB)	Annually	Expenditure of the National Government (obligation basis)	Commission on Audit
Statement of Allotment, Obligation and Balances (SAOB)	Quarterly	Expenditure of the National Government (obligation basis)	Department of Budget and Management
Cash Operation Report (COR)	Monthly	Revenue and disbursement of the National Government (cash basis)	Bureau of the Treasury
National Government Debt	Monthly	Revenue, disbursement for expenditure, and financing of the National Government (cash basis)	Bureau of the Treasury
Budget of Expenditure and Source of Financing (BESF)	Annually	<ul style="list-style-type: none"> - Three-year macroeconomic and macro-fiscal forecasts (cash basis) - Appropriations for next year (obligation basis) - Previous and current fiscal year revenue and expenditure of Off-Budget Accounts and Special Accounts in the General Fund and forecasts for next fiscal year 	Department of Budget and Management, and other agencies (BTR, NEDA)
Mid-Year Report	Annually	General discussion of the macroeconomic and macro-fiscal environment and outlook at half-year	Development Budget Coordination Committee
End-Year Report	Annually	General discussion of the macroeconomic and macro-fiscal environment of the completed fiscal year	Development Budget Coordination Committee
Fiscal Risk Statement (FRS)	Annually	Main risks to public finances, including macro-economic sensitivity analysis and specific risks	Development Budget Coordination Committee

Source: IMF Staff.

5. Finally, the Constitution has created a unique set-up with respect to the external audit function. While external auditing of individual government entities is the responsibility of a constitutionally-independent Supreme Audit Institution—COA—it is itself also assigned the task of compiling the government’s AFRs. International standards suggest a separation of the function for preparing the AFRs from that of auditing them and subjecting consolidated reports to the same audit scrutiny as individual reports.

Fiscal Forecasting and Budgeting

Budgets and their underlying fiscal forecasts should provide a clear statement of the government’s budgetary objectives and policy intentions and comprehensive, timely, and credible projections of the evolution of the public finances

6. The budget is the central instrument for setting and implementing fiscal policy. It sets out the government’s fiscal objectives and policies, demonstrates how those policies will impact the public finances, and seeks the legislature’s approval for the proposed levels of taxation and expenditure. It is therefore important that fiscal forecasts and budgets are based on credible forecasts of macroeconomic developments, provide comprehensive information on the government’s fiscal objectives and budgetary plans, are presented in a way that facilitates policy analysis and accountability, and are submitted in sufficient time for the parliament to scrutinize and approve them before the budget year begins.

7. The Philippines’s budget blends features from the US and continental European systems. On the one hand, appropriations are presented on a commitment basis (obligation), and several expenses are automatically appropriated. On the other hand, the budget power is mainly in the hand of the Executive and earmarking of revenues to special accounts is a usual practice. Beyond these features, the budget framework presents additional particularities, such as an *Unprogrammed Fund* which provides the Executive with the possibility to increase spending for a set of predetermined actions if additional revenues or financing are secured during the year.

8. The overall assessment on the budgeting and forecasting principles is generally positive, particularly in the area of policy orientation. Fiscal objectives are precise and time-bound, and performance orientation has moved to output indicators. The authorities have successfully implemented an impressive framework for public participation with the publication of a Citizen’s Budget and the allocation of budget envelopes for projects submitted by local communities. Macroeconomic forecasts and fiscal legislation have also advanced well.

9. Recent reforms have been conducive to enhancing fiscal transparency. Several of those reforms were introduced in the context of the 2014 Budget, including publication of a three-year fiscal plan for aggregated revenue and expenditure consistent with the overall fiscal deficit objective of 2 percent of GDP and introduction of performance indicators into the General Appropriations Act (GAA). End-year and mid-year reports on the national budget, discussing overall macroeconomic and fiscal performance, were published in 2013. The authorities have also successfully addressed the recurring difficulty of adopting the GAA on time before the start of the fiscal year.

10. However, credibility is undermined by the overall complexity and flexibility of the budget framework, as discussed below. This reflects several factors, such as a complex budget structure, with considerable earmarking, special purpose funds, and automatic appropriations permanently authorized by other laws, and the government’s substantial leeway to shape the allocation and composition of spending during budget execution. As a result, budget outturns generally deviate from the initial budget law in a way that makes comparisons difficult, although all detailed data are regularly published. The fact that the deviations result from procedures in full compliance with the existing legal framework implies that the supplementary budget principle could not be rated against the draft Code—as was the case in the 2010 PEFA assessment with respect to the two PEFA indicators on the aggregate and composition of expenditure outturns compared to the initial budget. Most of the priority reform recommendations in the forecasting and budgeting pillar focus on this particular area so as to encourage the authorities to aim for progress to comply with best transparency practices.

11. The analysis also suggests possible improvements in other areas, notwithstanding the major progress made in recent years and mostly favorable ratings. For example, there is scope to shift to a full-fledged indicative medium-term budget framework and align it with the annual budget, with a reflection of costs of current and future policies. In addition, while small in terms of GDP, the management of public investment projects could be strengthened by disclosing multi-annual contractual data for all major projects and subjecting them to cost-benefit analyses.

Fiscal Risk Analysis and Management

Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector

12. Fiscal risks can cause fiscal outcomes to deviate from fiscal forecasts and plans. Over recent years, the realization of fiscal risks has had a substantial detrimental impact on public finances across the world, in ways that were often not foreseen and not prepared for. These risks include uncertainty around the evolution of fiscally-important macroeconomic variables such as GDP growth, inflation, interest rates and unemployment. They can also arise from sources such as explicit government guarantees, implicit guarantees to the private sector, exposure to areas of the public sector not directly under the government’s control, and changes in the values of the government’s assets and liabilities. A government’s ability to cope with fiscal risks depends on the quality of information about the risks it faces, its powers to limit exposure to those risks that can be mitigated, and its capacity to absorb the fiscal consequences of those it cannot contain.

13. Over recent years, the Philippines has strengthened its analysis and disclosure of fiscal risks, so both the government and public are far more aware of many of them. The centerpiece of this analysis is the Fiscal Risk Statement (FRS), which the government has been producing since 2012. This document provides a relatively comprehensive collation of the risks that the Philippines’ public finances faces, and lays out the risk prevention and mitigation strategies that the government has in place to reduce its exposure, particularly in the case of the natural disasters to which the

Philippines is especially vulnerable. This FRS is underpinned by analysis that takes place throughout the administration, based on generally high-quality reporting across the bulk of government.

14. In order to lift this already impressive analysis to the cutting-edge practices of risk analysis worldwide, the Philippines should look to fill in the remaining gaps and expand the FRS accordingly. In many cases, this will involve extending existing analysis further, such as in lengthening the fiscal sustainability analysis over at least the next decade, and broadening the monitoring and coverage of outstanding guarantees beyond those issued to the GOCC sector. In other cases, this will involve producing significant new analysis, such as developing a full assessment of tax expenditures and better understanding the contractual obligations and potential risks incorporated in legacy public private partnerships (PPPs). Even in cases where practices are rated as good, scope for further improvements exist. For example, while subnational governments' finances do not seem to be a significant source of fiscal risks, they still warrant close monitoring and analysis, as some run liability-to-income ratios above 100 percent. In the same vein, although the explicit and implicit exposure of the government to the financial sector appears limited, experience from other countries during the 2008/09 global crisis suggests the need for vigilance and continuous analysis.

15. As the government further refines its risk analysis and mitigation strategies, it may consider reducing the budget's very large contingency buffers and tightening the access criteria that apply. This will help ensure that they are only used for genuinely urgent, unforeseeable and unavoidable events.

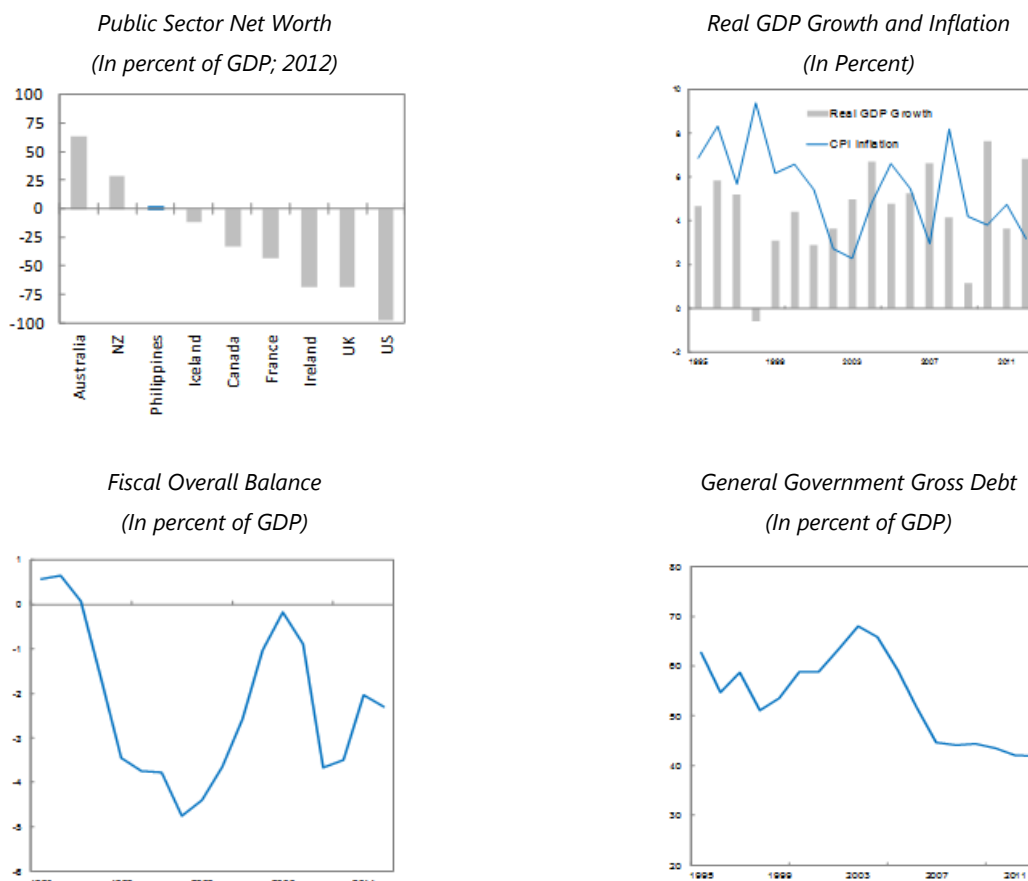
B. The PFM Reform Context

16. Recent PFM reforms, launched under the authorities' PFM reform program, and efforts to enhance fiscal transparency—including under the *Global Initiative for Fiscal Transparency (GIFT)*—have had a positive impact on the Philippines' assessment against the *Code*. The authorities' PFM reform program has been anchored in the Philippines Development Plan (PDP) for 2011–16. On this basis, a comprehensive PFM reform roadmap has been developed and gaps, strategies, and reform objectives and goals have been identified (Box 1).

17. These efforts have also been conducive to supporting macroeconomic stability and development. Among other things, real GDP growth has been buoyant and inflation has stabilized, while a strong focus on delivering prudent fiscal policy has resulted in a steady decline in public debt (Figure 1).

18. In the same vein, Philippines has achieved a positive net worth position over the years which is stronger than in many advanced economies. This is based on an analysis of the public sector's role in economic activity, which amounted to 21 percent of GDP in 2012, with gross liabilities of 110 percent of GDP roughly offset by a similar amount of assets—resulting in an estimated positive net worth position of 2 percent of GDP. However, the main focus of government policy-making in Philippines has been on the national government, which represented 14 percent of GDP, with the general government accounting for 17 percent of GDP of economic activity (Table 2 and Figure 1).

Figure 1. Selected Macroeconomic Indicators



Source: World Economic Outlook and IMF Staff Estimates.

**Table 3. Public Sector Financial Overview
(Percent of GDP)**

	National government agencies	Social Security Institutions	Central Government*	Local Government Units	General Government*	Other GOCCs*	Public Sector*
Total Transactions							
Revenue	16.4	3.4	19.6	3.3	20.8	5.2	25.1
Expense	14.1	2.1	16.0	2.9	16.8	4.6	20.5
Balance	2.3	1.3	3.5	0.5	4.0	0.6	4.6
Total Assets	38.6	11.5	35.2	7.9	42.9	77.5	112.3
Non-financial Assets	10.0	0.6	10.6	4.9	15.5	8.8	24.3
Financial Assets	28.6	11.0	24.7	3.0	27.5	68.6	88.0
Total Liabilities	57.0	6.4	48.5	2.7	51.0	67.4	110.3
Public Service Pension	0.0	6.0	6.0	0.0	6.0	0.0	6.0
Other	57.0	0.4	42.5	2.7	45.0	67.4	104.3
Net Financial Worth	-28.4	4.6	-23.9	0.3	-23.5	1.2	-22.3
Net Worth	-18.4	5.1	-13.3	5.2	-8.1	10.1	2.0

* Consolidated to the extent possible

Source: COA Annual Financial Reports and staff estimates

Box 1. The PFM Reform Program

The PFM reform program is a key plank in support of the Philippine governance reform agenda set out in the PDP for 2011-16. It is based on recognition that multiple oversight agencies with their own data requirements and reporting formats create duplication, an inability to validate reports and analyze data, and weaken accountability. The objective is to solve the government's fragmented financial management system by introducing a new GIFMIS, underpinned by the effective integration of processes between the central fiscal agencies.

The short-term focus has included:

- Development of common reporting requirements of oversight and spending agencies to eliminate duplication and overlaps;
- Harmonization of budgetary and accounting classifications to enable the comparison of expenditures for programs/projects/activities with approved appropriations;
- Comprehensive review and revision of the Philippine Government Chart of Accounts; and
- Harmonization of the Philippine Government Accounting System with international standards.

The 2014 Budget marked the introduction of a new budget classification based on the Unified Accounts Code Structure (UACS).








As these fundamental reforms are still largely in the implementation stage, they have not yet had significant impacts on transparency and enhanced fiscal reporting. They have the potential, however, to bring about major improvements in transparency in the short to medium term.

19. Several specific reform measures have raised the Philippines' assessment against the Code. This has been the case in several pillars of the evaluation and bodes well for further gains in fiscal transparency going forward. Table 4 illustrates the impact of these achievements, with some dramatic improvements in specific principles, such as in the fiscal risk and public participation areas.

C. Cross-Cutting Fiscal Transparency Issues

20. The assessment of Philippines' transparency practices has revealed two cross-cutting issues that span across the three FTC pillars. Those are: (i) the fragmentation of roles and responsibilities for fiscal management in the public sector, which may lead to a suboptimal use of the wealth of available information and undermine efficient economic decision-making; and (ii) the complexity and flexibility of, and lack of clear reporting on, the budget system, which may lead to inefficiencies in the allocation of resources and the delivery of public sector services. Apart from the broader economic implications of these issues, they directly affect the extent of fiscal transparency.

Table 4. Impact of Selected Past Reforms on *FTC* Assessment

Reform conducted	Main Principle of the Improved	Impact on the Assessment
Disclosure of revenue and expenditure from off-budget accounts in budget documentation	Budget Unity	
Presentation of aggregated three-year fiscal plan in budget documentation	Medium-Term Budget Framework	
Output performance indicators in budget documentation	Performance Information	
Accessible summary of the budget and grassroots participatory budgeting process	Public Participation	
Mid-year report discussing half-year execution and macroeconomic and fiscal outlooks	Forecast Reconciliation	
Macro-sensitivity analysis with alternative interest and exchange rate scenarios	Macroeconomic Risks	
Annual fiscal risk statement	Specific Fiscal Risks	

Source: IMF Staff.

The Fragmentation of Roles and Responsibilities in the Public Sector

21. The production and dissemination of good-quality fiscal data is of fundamental importance for fiscal transparency and efficient economic decision-making. The recent IMF

Board Paper on *Fiscal Transparency, Accountability and Risks*¹ identified the divergence in reporting coverage and concepts used in ex ante budgets and ex post statistics and accounts as a major source of fiscal risks. It emphasized that many countries prepare fiscal documents, such as budgets, appropriation acts, execution reports, and financial statements, on different bases, making it difficult to assess how fiscal outcomes relate to the initial budget and overall fiscal strategy.

22. Such fragmented fiscal reporting arrangements can be observed in the Philippines.

While the evaluation of the country's reporting against the Code indicates many areas of strength—coverage, timeliness and frequency, and quality—the scoring on the principles measuring the integrity of fiscal statistics and financial statements points to a key area for improvement. The Philippines fares relatively well in principles where a single agency is mandated with responsibility for fiscal reporting and accounting and reporting policies are clear, such as for the Annual Financial Reports prepared by COA and the monthly cash operations reports by the Bureau of Treasury (BTR) for in-year reporting. However, where multiple agencies are involved in fiscal reporting and coordination is incomplete, concerns on data comparability and integrity arise. As a matter of fact, reconciling information on fiscal forecasts, budgets, outcomes, and statistics is a particular challenge in Philippines, as four different entities (DBM, BTR, COA, and NEDA) are involved in these roles.

23. This multiplicity of institutions with responsibilities in reporting and the absence of a common reporting framework to date contribute to the inconsistent application of definitions, concepts, and formats.²

To some extent, the granting by the Constitution of the function of keeping the general accounts of the government to COA may have contributed to an insufficient development of the internal reporting capacity of the Executive branch of the government. This also raises a major transparency issue in that COA is assigned the role as an external auditor but cannot independently validate the Annual Financial Reports it prepares.

24. A lack of clarity of roles and responsibilities is also apparent in other areas. For example, public corporations are actively used to undertake quasi-fiscal activities in support of social objectives that should be borne by the budget, undermining transparency and leading to potential vulnerabilities. In addition, the authorities have only recently begun to investigate tax expenditures; some 18 investment promotion agencies are currently allowed to grant tax incentives under 180 pieces of legislation. The lack of central control and information on their costs and benefits is an area of concern in light of the country's relatively low tax-to-GDP ratio. Similarly, while the new Fiscal Risk Statement captures many of the government guarantees issued to GOCCs, there is no clear accountability of monitoring of other guarantees, such as those possibly extended to the private sector. Moreover, little information is available on obligations and risks related to the large stock of legacy PPPs, as responsibility for the collation and analysis of such contracts is not clarified.

¹ See <http://www.imf.org/external/np/pp/eng/2012/080712.pdf>.

² See Box 1 for an indication of recent reforms that will impact fiscal reporting going forward.

The Complexity and Flexibility of the Budget System

25. The Philippines' budget system has an unusually large amount of complexity and flexibility built into it. To some extent, this reflects the specific challenges the country faces, such as the frequency of natural disasters that require quick responses from the state. Also, the at times difficult relationship between the Executive and Congress has delayed budget approval beyond the timeline envisaged by the Constitution and made the passage of supplementary budget legislation cumbersome. As a result, the annual budget law has become an imperfect indicator of the government's priorities for resource allocation and service delivery, as budget outturns differ noticeably from the budget law. While this has not affected macroeconomic and fiscal policy outcomes over the last few years—to the contrary, the authorities' fiscal policy stance has been prudent and resulted in highly positive public debt dynamics—this could rapidly change should the political or external environment become less favorable.

26. This complexity and flexibility has several aspects to it:

- **Budget structure:** Consistent with good practice, expenditure cannot be obligated without appropriations authorized by Congress. However, as shown in Box 3 and Figure 5 below, the structure of the budget is complex, as it encompasses a large number of earmarking, special purpose funds, and automatic appropriations permanently authorized by other laws.
- **Available appropriations in excess of initial budget assumptions:** Total spending (obligations) during a fiscal year may deviate significantly from the initial budget assumptions. Available appropriations continuously exceed the obligation program, since unobligated appropriations from the previous year can to some extent be carried over and a so-called *Unprogrammed Fund* is available to be released during the year under pre-defined circumstances. In 2012, the government released half of the authorized fund, increasing the obligation program by more than 4 percent.
- **Flexibility during execution:** The Executive has considerable leeway in shaping both the allocation and composition of expenditure through four channels. First, the President can reallocate appropriations between agencies to a large extent. Second, appropriations are gradually released to departments by DBM, based on its assessment of whether the government will be able to meet its overall fiscal deficit target, implying that spending entities cannot initially access all their programmed appropriations. Third, the *Unprogrammed Fund* and continuing appropriations can be released, as discussed above. And fourth, some other budget lines (related to Special Purpose Funds and some other appropriations) are transferred to the main (NGA) budget lines during the year for implementation.

27. These features are not inconsistent with the national legislative framework. Philippines scores well in terms of budget unity as the General Appropriation Act (GAA) includes appropriations for 85 percent of these funds. But the fact is that total budget obligations during a fiscal year can exceed—sometimes substantially—the initial budget law. In addition, the existing budget framework allows for the government to significantly alter the composition of expenditure during the course of the fiscal year.

28. However, these features of the budget system complicate fiscal reporting and give rise to vulnerabilities. The basis of forecasts, appropriations and outcomes presently differ and reporting is spread across different agencies that follow different definitions and approaches for reporting within the fiscal year. This is, however, slated to change in 2014 as a result of the new Unified Accounts Code Structure (UACS) and budget classification. In addition, the recent first-time publications of mid-year and end-year reports on the national budget and the coverage of a large majority of off-budget accounts in documentation for the 2014 budget were major steps in disclosing and reconciling numbers and enhancing transparency. While large contingencies help build a buffer against shocks such as natural disasters, an ability to expand the spending envelope significantly beyond the fiscal policy objectives entails risks to macroeconomic stability and the achievement of development objectives. This is even the case when safeguards appear to be in place, such as access criteria or linking additional appropriations to the availability of revenue or financing. It may also undermine some of the noteworthy reform efforts in the PFM area, such as the benefits of the medium-term budget framework or the use of performance information in the budget process.

29. While other countries have also aimed to enhance, or preserve, flexibility in budget planning and implementation, the global trend goes toward firmer fiscal frameworks. In the run-up to the 2008 global crisis, many countries had moved spending off-budget, especially when public scrutiny had focused on the central government budget while urgent spending demands persisted. Heightened public awareness of this issue, and tighter national or international fiscal rules (such as in the EU), has prompted countries to clarify and streamline their fiscal frameworks.

D. Priority Recommendations

30. Table 4 outlines the high-priority recommendations for addressing the Philippines' fiscal transparency gaps. The recommendations are the result of the detailed evaluation of existing practices against the 36 principles under the Code, as undertaken in Annexes I to III. They also reflect an assessment of priority which in many cases was based on a quantitative analysis and, in some cases, on judgment, taken into account country-specific circumstances. Implementing these recommendations would address the majority of the identified transparency gaps, lifting the assessment closer to international best practices. Many of the recommendations are already underway and built into the PFM reform program.











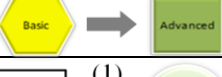



31. Several of these proposals involve making better use of existing information and analysis and can thus be implemented almost immediately. For example, the government already produces a sophisticated short-term DSA; extending it over a longer time frame would yield significant benefits with only a small increase in effort. Others, such as tailoring budget flexibility, will require more deep-seated reforms, changing the way the underlying budget systems operate.

32. Over time, these reforms would allow the government to:

- Publish a consistent set of documents that provides the public with the means to track the operations of government from one year to the next and over the course of the year; and compare the budget to the final accounts on a consistent and transparent basis;

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- Increase the credibility of the budget, so that the plans presented to Congress and the public at the beginning of the year bear much closer relation to the fiscal outturns at the end of the year;
- Better understand the implications of policy actions today on longer-term fiscal sustainability;
- Fully delineate the government's policy activities from purely commercial activities, facilitating international comparisons;
- Better allocate resources to priority areas over the medium term, building in the cost of all existing policies, including the multi-annual cost of PPP obligations; and
- Be assured that the financial accounts and reports are a true and fair view of the state of public finances, and have been audited by a fully independent pair of eyes.


Table 5. Priority Recommendations for PFM Reform			
No.	Recommended Reform	Main Principle of the <i>FTC</i> Improved	Possible Impact on the Assessment
Short-Term Recommendations			
1	Consider strengthening the executive branch's capacity to consolidate and report fiscal statistics and data	Statistical Integrity	
2	Present all forecasts and reports with the same budget structure and prepare reconciliation tables	Comparability of Fiscal Data	
3	Prepare a comprehensive annual budget document covering the whole central government, and present mid-year and end-year reports with the same coverage	Budget Unity	
		Forecast Reconciliation	
4	Publish a detailed quarterly statement on the management of budget execution, including contingency provisions	Supplementary Budget	
		Budgetary Contingencies	
5	To assess fiscal sustainability, extend DSA projections at least over 10 years	Long-Term Fiscal Sustainability Analysis	
6	Allocate responsibility and resources within the DOF to bring together a central store of information on PPPs (both new and legacy)	Public-Private Partnerships	
Medium -Term Recommendations			
7	Compile and report fully consolidated data for the public sector and its subsectors in line with international standards	Coverage of Institutions	
8	Establish a function for auditing of AFRs that is separate from the function of preparing them	Audit of Annual Fin'l Statements	
9	Shift to a full-fledged indicative MTBF	Medium-Term Budget Framework	
10	Tailor budget flexibility to actual needs by streamlining earmarking and Special Purpose Funds, including the <i>Unprogrammed Fund</i>	Supplementary Budget	
11	Estimate and disclose the impacts of the largest tax expenditures, including income and consumption tax exemptions	Tax Expenditures	
12	Survey all agencies and GOCCs on outstanding contractual guarantees, develop a regularly updated guarantee (or broader contingent liability) register, and include findings in the FRS	Guarantees	
(1) Improvement of the Supplementary Budget principle score would result from the implementation of both recommendations No. 4 and 10.			
Source: IMF Staff.			

Annex I. First Pillar: Fiscal Reporting

A. Coverage of Fiscal Reports

1.1 Coverage: Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector, according to international standards.

1.1.1. Coverage of Institutions: Fiscal reports cover all entities engaged in public activity according to international standards.

Assessment:	Importance for further reform:	Priority Recommendation:
 <p>Basic</p>	<p>Medium</p>	<p>No. 7</p>

Assessment: Annual financial statements for almost all the individual institutional units of the public sector are publicly available. These statements are subject to regular audits by COA. The public sector institutions in the Philippines are classified according to three subsectors, namely:

- National Government Agencies (NGAs), including the General Fund, Special Accounts of the General Fund, Special Funds, and off-budget accounts;
- Local Government Units (LGUs), including provinces, cities, municipalities and barangays (municipal subunits); and
- Government Owned and/or Controlled Corporations (GOCCs), including government financial institutions, social security funds, utility companies, boards, commissions and other authorities.³

The audited financial statements for individual entities are annually aggregated and consolidated, to the extent possible, in the AFRs for each of the subsectors. The AFRs are compiled by COA. Coverage of institutions included in these reports has steadily improved (Table 6), covering all national government entities and almost all local governments (98 percent of units) and GOCCs (90 percent of units) in 2012. These reports consolidate the data for each of the three subsectors of the public sector, to the extent possible. As indicated in Figure 2, data for the consolidated central government are close to complete when consolidating the national government AFR with the individual accounts of the social security institutions (SSIs), although a small number of non-market GOCCs still need to be identified to allow for full consolidation of the central government sector. Local government data are available as a distinct dataset, but are not consolidated with the data of the central government to derive the minimum size of the general government sector. Moreover, although almost all entities of the public sector are covered in the

³ GOCCs are either market or nonmarket producers performing functions on behalf of government. This group should be divided, and the nonmarket producers should be part of the general government sector.

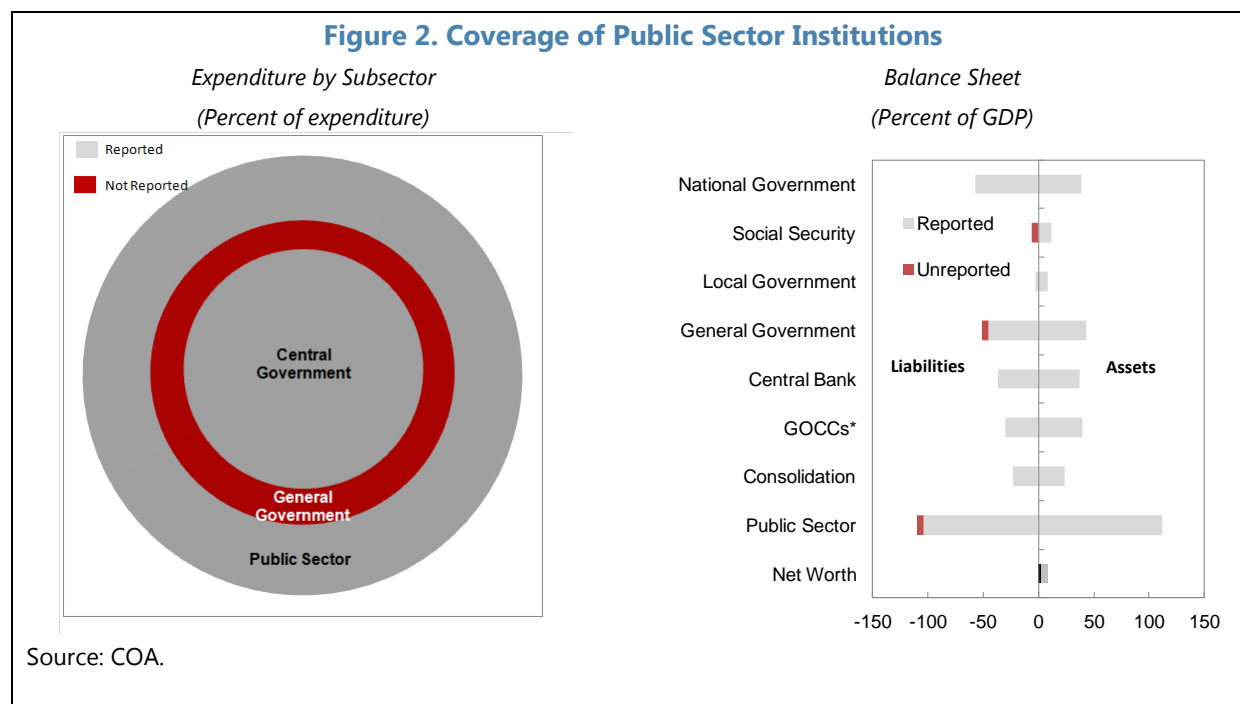
AFRs, full consolidation of the general government or public sector is not possible at this stage, especially for GOCCs, due to the deficiencies in the sector classification of GOCCs and in source data to identify and reconcile all intra- and inter-public sector flows and stock positions.

Table 6. Philippines—Coverage of Institutions in Annual Financial Reports

	2011			2012		
	NGAs	LGUs	GOCCs	NGAs	LGUs	GOCCs
Number of entities that exist	323	1714	652	323	1714	654
Number of entities included in report	318	1682	548	323	1685	582

Source: COA.

Figure 2. Coverage of Public Sector Institutions



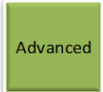
Indication of importance for further reform: The lack of a consolidated presentation of the Philippines' general government and public sectors hampers fiscal analysis and international comparability. This gap also obscures quasi-fiscal activities that take place in the GOCCs.

Priority Recommendation No. 7 in Table 5: *Compile and report fully consolidated data for the public sector and its subsectors in line with international standards.* Using a building-block approach, the development of the data could be phased in as follows:

- Consolidate SSIs with the national government data to derive a consolidated central government excluding nonmarket GOCCs;

- Identify and include the nonmarket GOCCs in the consolidated central government;
- Consolidate local governments with the consolidated central government to derive general government data;
- Consolidate nonfinancial public corporations with general government data to derive the nonfinancial public sector data; and
- Consolidate financial public corporations with the nonfinancial public sector to derive public sector data.

In all cases, intra- and inter-sectoral flows and stock positions should be appropriately identified and eliminated in consolidation.

1.1.2. Coverage of Stocks: Fiscal reports include a balance sheet of public assets, liabilities, and net worth.		
Assessment: 	Importance for further reform: Low	Priority Recommendation: —

Assessment: The AFRs cover the majority of financial and nonfinancial assets and liabilities of the public sector. They use a modified accrual basis of recording which captures expense when incurred and revenue when it accrues, with financial assets and liabilities recognized for bridging the gap before cash flows occur. The Constitution requires COA to submit to the President and Congress, within the time fixed by law, an annual report covering the financial condition and operation of the government. Consistent with this mandate, the annual report includes a full balance sheet and statement of equity of government. Equity refers to the residual interest of the government in the reporting agencies, calculated as the excess of each agency's assets over its liabilities (i.e., the net worth of government). The asset and liability positions of NGAs, LGUs, and GOCCs are reported in their respective AFRs. For each of these subsectors of the public sector, intra-governmental stock positions are consolidated to the extent possible; adverse audit opinions in the individual financial statements indicate cases where full consolidation is not possible, especially in the case of GOCCs.



A public sector balance sheet was constructed from publicly available information (Table 2 in the Overall Assessment section). The aforementioned limitations on consolidation may result in an overestimation of financial assets and liabilities of the public sector, although it will not have an influence on the net worth position. Liabilities include the actuarial value of government employee pension obligations. Although this liability is reported in the financial statements of the Government Service Insurance System (GSIS), it is incorrectly classified as equity in the balance sheet of the AFR. This classification results in an overestimation of equity and an underestimation of liabilities in terms of pension obligations in the AFR. In addition, liabilities regarding pension payments to military

personnel are excluded from the AFRs; COA estimated that this liability amounted to PHP 61.63 billion in 2012. In line with existing accounting policies, historical costs are generally used for the valuation of nonfinancial assets, thus not allowing a market value assessment of these assets. For financial instruments, some are valued at fair values. Although subsoil assets are not recognized in these balance sheets, these assets are considered to be relatively small (see principle 3.2.7). Furthermore, the balance sheet excludes assets and liabilities of PPPs under the control of government that cannot be quantified.

Indication of importance for further reform: Coverage of stocks is advanced in Philippines.

The availability of full information on the balance sheet of the government facilitates an analysis of assets and liabilities and allows for the development of an integrated asset and liability management strategy, with a view to managing risks. In this regard, classification of government employee liabilities should be improved (see also principle 1.3.1). To further enhance usefulness of these data, consideration should be given to improve accounting policies so as to use market valuations for the measurements of assets and liabilities, where appropriate.

Priority recommendation: None.

1.1.3. Coverage of Flows: Fiscal reports cover all public revenues, expenditures, and financing.		
Assessment: 	Importance for further reform: Low	Priority Recommendation: 

Assessment: The AFRs of national government agencies, local government units (LGUs), and GOCCs include an income statement and a cash-flow statement (Table 7). These accounts therefore cover cash flows, accrued revenues and expenses, and some realized and unrealized valuations and volume changes (other economic flows). In line with prescribed accounting policies, the modified accrual basis of accounting is used in the compilation of these accounts. Income is recorded upon delivery of goods and services, except for tax revenue, duties, fees, fines and penalties, and user charges, which are recognized upon collection. Contributions to government employee pension funds are included in the business income; they should be classified as the incurrence of a liability. Expenses are recognized when obligations are incurred, and these are reported in the financial statements in the period to which they relate. Obligations arise from an act which binds the government to the immediate or eventual payment of a sum of money. Foreign-currency denominated assets and liabilities are revalued based on the central bank's weighted average exchange rate—any differences in the revaluation of marketable financial assets and liabilities are recognized as a gain or loss on foreign exchange or other price changes. Some economic flows related to the value of nonfinancial assets are not recorded in the accounts, since the 'historic cost less accumulated depreciation method' is primarily used to value property, plant, and equipment. In addition, depreciation is calculated using a straight-line method, and estimated useful lives of the assets ranges from 5 to 40 years, as prescribed by COA. This method may not always reflect an asset's true economic value and could thus have an impact on the value of other

economic flows recognized in the accounts. The monthly COR of government incorrectly includes a notional revenue and expense amount in respect of tax expenditure (see also principle 3.2.2).

Table 7. Philippines—Income Statement for 2012

	National government agencies	SSIs	Central Government*	Local Government Units	General Government*	Other GOCCs*	Public Sector*
Income	16.4	3.4	19.6	3.3	20.8	5.2	25.1
Taxes	12.8	0.0	12.8	0.8	13.7	0.0	13.7
Other	3.6	3.4	6.7	2.5	7.2	5.2	11.4
Expenses	14.1	2.1	16.0	2.9	16.8	4.6	20.5
Personal services	5.3	0.1	5.4	1.2	6.7	0.4	7.1
Maintenance 1/	2.2	0.5	2.7	1.3	4.0	1.3	5.3
Financial expenses	3.0	0.0	3.0	0.1	3.1	0.5	3.6
Other	3.6	1.5	4.9	0.2	3.1	2.3	4.5
Deficit/Surplus	2.3	1.3	3.5	0.5	4.0	0.6	4.6

* Consolidated to the extent possible

Source: COA and staff estimates

1/ And other operating expenses.



Indication of importance for further reform: The reporting of flows is comprehensive and likely to improve further as the authorities make continued progress in their move toward implementing IPSAS as accounting standards. Market valuations of assets and liabilities allow an analysis of flows, superior to that presented when using historic cost valuation methods for fixed assets, and face values for financial assets and liabilities. Although AFRs measure some financial instruments at fair values, which allow the recording of their other economic flows, this practice could usefully be extended to improve the valuation of all assets and liabilities. Similarly, accumulated depreciation on a straight-line method may not reflect the true economic value of nonfinancial assets. Valuation techniques of these assets could be further improved over time.

Priority recommendation: None

Frequency and Timeliness of Fiscal Reports

1.2. Frequency and Timeliness: Fiscal reports should be published in a frequent, regular and timely manner.


1.2.1. Frequency of In-Year Reporting: In-year fiscal reports and statistics are published on a frequent and regular basis.

Assessment:	Importance for further reform:	Priority Recommendation:
 Advanced	Low	

Assessment: BTR publishes in-year fiscal reports in the form of a monthly *National Government Cash Operations Report (COR)*. It covers the budgetary and non-budgetary national government and is generally published 3 to 5 weeks after the end of the reference month. The December report is published as part of a year-end report and disseminated two months after the end of the year, while the January report is published 3 to 4 weeks after the release of the final year-end report. An advance release calendar is published for these reports. As indicated in the annual SDDS Observance Reports, occasional slippages in the timeliness of the monthly reports occur due to delays in the finalization of source data. In addition, the DBM also publishes its assessment report on the national government disbursement performance on a monthly basis.

Indication of importance for further reform: The frequency and timeliness of in-year reporting is already at an advanced level, although two areas for improvement exist. First, the quality of the in-year reports could be further enhanced, as discussed in principle 1.3.1. And second, closer adherence to the advance release calendar is also warranted.

Priority recommendation: None.

1.2.2. Timeliness of Annual Financial Statements: Audited or final annual financial statements are published in a timely manner.		
Assessment: 	Importance for further reform: Low	Priority Recommendation: —

Assessment: A full set of final annual financial statements for each individual national government agency, LGU, and GOCC is published by COA. For the past three years (2010–12), these have been published prior to end-September of the following year (as required by Section 41 of Presidential Decree No. 1445, the Auditing Code of the Philippines).

Indication of importance for further reform: Performance on this dimension is good. While completion within 6 months of year-end would mean outturn information is available during preparation and deliberation for next year's budget, increasing the timeliness of the annual financial statements is not a priority compared to other dimensions of fiscal reporting.

Priority recommendation: None.

Quality of Fiscal Reports

1.3: Quality: Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.

1.3.1. Classification: Fiscal reports classify information in ways that make clear the use of public resources and facilitates international comparisons.

Assessment:	Importance for further reform:	Priority Recommendation:
	Medium	

Assessment: For annual data, the AFR and the *Budget of Expenditures and Sources of Finance (BESF)* report tabled with the annual budget contain detailed breakdowns according to administrative, economic, and functional classifications. The economic classification is not fully consistent with the GFS economic classification, but it can be bridged to it, except for some detailed level of transfers that cannot be distinguished. A new UACS was introduced in the 2014 budget. This will in the future enable the compilation of fiscal reports that are more consistent with the GFS economic classification. The BESF contains a functional classification of expenditure for national government that is broadly consistent with the GFS functional classification. Spending by program is not currently reported, but a new program classification was introduced in the 2014 budget.

Monthly CORs contain data on revenues by main tax type and expenses with some economic classifications. The data on total expenses are reported with “of which” lines for the allotment to LGUs, interest payments, subsidies, tax expenditures (a non-cash item), equity, and net lending. At present, it is not possible to identify social transfers, or distinguish spending on investment from spending on goods and services on a monthly basis. The data also lack details on compensation of employees. The monthly data do not disclose expenses by administrative unit either.

The Department of Budget and Management (DBM) publishes a quarterly report of appropriations, allotments, and unobligated balances by administrative unit. DBM also publishes on its website a monthly report of disbursements by national government agencies, and of budgetary support to GOCCs and LGUs.

Indication of importance for further reform: Fiscal reports in the Philippines provide information that clearly indicates the use of public resources, but could be further enhanced. Reporting revenue by tax type and expenditure by economic classification that is fully consistent with international standards improves the usefulness of fiscal reports for economic analysis. In addition, reporting spending by a functional classification that is fully consistent with international standards, and spending by program, would also facilitate policy analysis and accountability and support the introduction of performance-informed budgeting.

Priority recommendation: None.

1.3.2. Internal Consistency: Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.

Assessment: 	Importance for further reform: Low	Priority Recommendation: —
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Assessment: The Philippines regularly publishes two of the three internal consistency checks called for under the Fiscal Transparency Code.

- **The monthly COR for the national government presents the cash surplus/deficit (i.e., above-the-line data) and the financing of this balance (i.e., below-the-line data).** Financing data separately identify external and domestic loans incurred less amortization, as well as the change in cash balances of the national government.
- **The annual BESF reconciles the outstanding balances of debt of the national government by explaining amounts of new borrowing and principal repayments.** These data are presented at face value, and the value of debt denominated in foreign currencies is converted to Philippine peso using end-of-period market exchange rates.
- **The annual financial statements recognize changes in the volume or value of assets and liabilities in accordance with accounting policies.** However, a full stock-flow reconciliation of financing and the change in stock of debt is not available.

Indication of importance for further reform: The authorities should consider reconciliations of fiscal balances with financing, and financing with changes and balances in outstanding government debt and cash balances. This would serve as an automatic cross check of the reliability of flows and stock data. In particular, financial statements could usefully be enhanced by presenting reconciliations of outstanding balances of assets and liabilities by separately recognizing financing transactions and other changes in value of these asset and liabilities.

Priority recommendation: None

1.3.3. Historical Consistency: Material revisions to historical fiscal statistics are disclosed and explained.

Assessment: 	Importance for further reform: Low	Priority Recommendation: —
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Assessment: Revisions to fiscal data are properly disclosed and explained. Regarding annual data, the AFRs are based on preliminary reporting from some agencies, with any revisions subsequently incorporated in the following year's AFRs in the form of a restatement of the previous year's comparative data. Any fundamental errors in recording income and expenses of previous

years are corrected using a prior year's adjustments account. Reasons for the restatement of data are presented in notes to the individual financial statements of the agencies concerned. In 2009-11, restatements to the AFRs of the national government were minor, and the reasons and amounts were disclosed in the notes to the financial statements. With respect to in-year reports—the monthly CORs issued by BTR—revisions to data in one month are either corrected the following month, or included in the December report. These revisions are not disclosed.

Indication of importance for further reform: Revisions to fiscal data in recent years do not seem to have been of a magnitude to warrant priority attention. However, disclosure of revisions to monthly CORs would be desirable.

Priority recommendation: None.

Integrity of Fiscal Statistics and Financial Statements

1.4. Integrity: Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.

1.4.1. Statistical Integrity: Responsibility for verifying and disseminating fiscal statistics is vested in a specific body that is independent.

Assessment:	Importance for further reform:	Priority Recommendation:
	Medium	No. 1


Assessment: The task of collecting, compiling and disseminating fiscal statistics for the public sector based on international statistical standards (*GFSM 2001*) is vested in two entities. Those are the Department of Finance's (DOF) Fiscal Policy and Planning Office (FPPO) and the Bureau of Treasury (BTR). The DOF publishes data on revenues, expenditures, financing and consolidated surplus/deficit. The BTR reports on national government cash operations and debt.

There is no specific legal basis for these activities. Executive Order of the President No. 127 (EO 127) in general terms calls for the DOF to compile fiscal data (interpreted by the FPPO as being for the public sector). EO 449 implies that the BTR, as fiscal agency for the national government, should collect and compile fiscal data for the national government. The data are compiled in accordance with COA rules contained in the Government Accounting and Auditing Manual (GAAM) 1992 and the revised chart of accounts issued in 2004. While the National Statistical Coordination Board (NSCB) is responsible for designating statistical responsibilities across the government, the number of different entities responsible for different aspects of fiscal reporting poses considerable coordination challenges and weakens fiscal reporting.

Indication of importance for further reform: In the Philippines, a specific legal basis for the production of fiscal statistics is lacking, and there is no single source of fiscal and financial information. However, a clear allocation of responsibilities for verifying and disseminating fiscal

statistics, supported by a specific legal basis, is important to ensure the integrity of fiscal data. The currently dispersed institutional responsibilities create a need for closer coordination and consistent reconciliations between the different fiscal data series in order to ensure the quality of fiscal statistics and data. This has adverse effects on the integrity of fiscal statistics and fiscal data.

Priority recommendation No. 1 in Table 4: Consider strengthening the executive branch's capacity to consolidate and report fiscal statistics and data. This could entail establishing a centralized data compilation unit in one of the central fiscal agencies and introducing a specific legal basis for the compilation, verification and dissemination of fiscal statistics.

1.4.2. Audit of Annual Financial Statements: Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.		
Assessment: 	Importance for further reform: <h1 style="color: blue;">High</h1>	Priority Recommendation: <h1 style="color: blue;">No. 8</h1>

Assessment: While audits of individual agencies' financial reports are undertaken by an independent Supreme Audit Institution—COA—there is no separate independent audit of the consolidated Annual Financial Reports; this differs from international practice. The individual financial statements of national government agencies, LGUs, and GOCCs are prepared by the individual entities themselves to national accounting standards (the government is moving to adoption of IPSAS). These individual financial statements are then audited by COA, a body independent of the Executive established by the Philippine Constitution. COA conducts financial compliance audits, as well as value-for-money audits and special audits. COA publishes its opinion on the entity financial statements in its *Annual Audit Reports*, while significant and common issues are summarized and reported in the *Audit Performance Summary Report*. However, the Constitution also assigns to COA the function of keeping the general accounts of the government (Article IX-D Section 2 (1)). COA therefore itself aggregates and consolidates the individual entity statements into the overall Annual Financial Reports (AFRs) of the government. COA is therefore not in a position to provide an independent assurance as to the reliability of the government's AFRs that it prepares. International practice suggests that the consolidated reports should be subject to the same audit scrutiny as the individual reports. The consolidated AFRs therefore do not contain an audit opinion on the reliability and fair representation of the AFRs.

Indication of importance for further reform: Independence of the external auditor from the audited entity is a fundamental principle to ensure the integrity of fiscal accounts. In its absence, the credibility of financial reporting is called into question. Consolidation of financial data and preparation of the year-end financial statements of government is therefore usually an executive function performed by a central finance agency in most countries. For example, in this region all member countries of ASEAN aside from the Philippines assign the function of preparation of the government's financial statements and AFRs to an agency or agencies of the executive branch of government, while those reports and statements are subsequently subjected to independent

audit by a SAI. This principle is enshrined in international standards, including those promulgated by the International Organization of Supreme Audit Institutions (INTOSAI), as summarized in Box 2.

Box 2. Supreme Audit Institutions and Independence

The independence of the SAI from the entities is established in INTOSAI Declarations and in International Standards of Supreme Audit Institutions (ISSAIs), as well as UN Declarations. It is also the basis of the design of Public Expenditure and Financial Accountability (PEFA) indicators

Excerpts from ISSAI 1

Foreword: The chief aim of the LIMA Declaration is to call for independent government auditing. A Supreme Audit Institution which cannot live up to this demand does not come up to standard.

II. Independence. Section 5: Independence of Supreme Audit Institutions

1. SAIs can exercise their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence. Although state institutions cannot be absolutely independent because they are part of the state as a whole, SAIs shall have the functional and organization independence required to carry out their tasks.

2. In their professional careers audit staff of SAIs must not be influenced by the audited organizations and must not be dependent on such organizations.

UN Guidance

The importance of SAI independence was recognized in **UN General Assembly Resolution A/66/209** on 'Promoting the efficiency, accountability, effectiveness and transparency of public administration by strengthening supreme audit institutions', issued in December 2011. The Resolution recognized, inter alia, that *SAIs can accomplish their tasks objectively and effectively only if they are independent of the audited entity and are protected against outside influence.*

PEFA

PEFA indicator PI-25 on the coverage and timeliness of annual financial statements envisages, in the description of the indicator, that the function of compiling the government's consolidated financial statements is a function of the Executive branch of government. It notes that *'in some systems individual ministries, agencies and deconcentrated units issue financial statements that are subsequently consolidated by the ministry of finance. In more centralized systems all information for the statements is held by the ministry of finance. Validation of the statements through certification by the external auditor is covered by PEFA indicator PI-26.*

Priority recommendation No. 8 in Table 5: Establish a function for auditing of the

consolidated AFRs that is separate from the function of preparing them. From the perspective of established international practice, responsibility for compiling the AFRs of the government should be assigned to one of the central fiscal agencies in the executive branch of government.

Recognizing that this may require an amendment to the Constitution, which may be difficult to achieve, a second-best solution could be to establish a function within COA for preparing the AFRs that would be clearly delineated and separated from the function of auditing them, while also strengthening the executive branch's capacity to consolidate and report fiscal data. Possibilities for COA to delegate this function to an entity separate from COA in the executive branch should also be investigated. The authorities should study if such legal changes below a constitutional amendment would satisfy international standards.

1.4.3. Comparability of Fiscal Data: Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviation explained.

Assessment: 	Importance for further reform: <h1 style="text-align: center;">High</h1>	Priority Recommendation: <h1 style="text-align: center;">No. 2</h1>
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Assessment: Three major fiscal reports are prepared by BTR, DBM and COA with various scopes and basis of reporting:

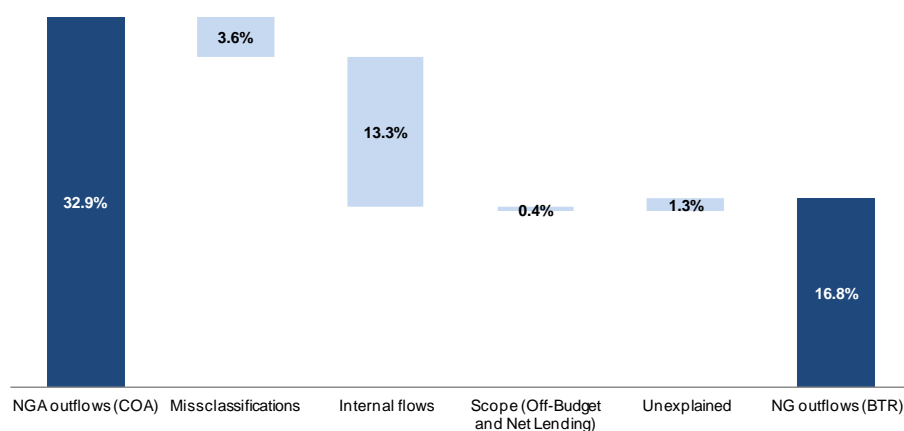
- BTR's monthly **National Government COR** presents revenues and disbursements on a cash basis.
- The **Statement of Allotment, Obligation and Balances (SAOB)**, prepared on a quarterly basis by DBM and on an annual basis by COA, presents the release of appropriations and their use by NGAs. It has the scope (national government) and basis (obligations) of the General Appropriation Act (GAA).
- The **AFRs** prepared on an annual basis by COA present all revenues and expenditure of NGAs, including the use of retained revenues in Off-Budget Accounts (see discussion of those accounts in principle 2.1.1). Data are reported on a modified accrual basis.

The COR is the only report that can be easily compared with information presented in the budget. Indeed, the BESF includes an aggregated revenue and disbursement plan presented on a consistent basis with the COR. This is also the basis for reporting the government fiscal deficit objective of 2 percent of GDP. The SAOB cannot be easily compared with the initial budget for reasons developed in principle 2.4.2. The AFR cannot be compared with the initial budget because of their differing scope and basis.

There are other reasons that affect the comparability between those reports. The 2012 cash flow statement of the AFRs reported total operating and investing outflows of 33 percent of GDP, compared to 17 percent of GDP for the COR, mainly because the former includes internal cash flows between agencies. Once these flows are eliminated and other factors are taken into account, a gap of 1.3 percent of GDP remains to fully reconcile BTR and COA cash reports for 2012 (Figure 4). While they both report on the national government, COR and SAOB cannot be reconciled for the lack of a bridging table that would separate payments on the current year's obligations from payments on the previous year's obligations.⁴ Moreover, each of the above-mentioned reports adopts its own classification which further limits comparability. Finally, many inconsistencies can be found between the SAOB published by DBM and the one published by COA, with a total difference for 2012 of PHP 32 billion, or 0.3 percent of GDP (Table 8), while those two reports should match perfectly.

⁴ Introducing quarterly monitoring of budget outcomes against approved budgets are some of the recent reform initiatives that may address this gap in comparable data in the future.

Figure 3. Comparison of the 2012 Cash Flow Statements from BTR and COA



Source: BTR and COA final published cash reports for 2012, and staff calculations. Data in percent of 2012 GDP. Off-budget accounts assessed following method explained in principle 2.1.1.

Table 8. Comparison of the 2012 Statements of Allotment, Obligation and Balances from DBM and COA

	DBM report	COA report	Difference (COA-DBM)
Current operating expenses	1,203.9	1,202.7	- 1.2
Personnel services	556.1	556.1	- 0.1
Interest	312.8	307.8	- 5.0
Other operating expenses	335.0	338.8	+ 3.8
Capital outlays (incl. net lending)	326.4	304.0	- 22.4
Allotments to LGUs	298.7	290.7	- 8.0
Total NG expenditure	1,829.0	1,793.3	- 31.6

Source: DBM and COA final published reports for 2012, and staff calculations. Data in billions PHP.

Sum may differ due to rounding effects. Actual difference on personnel services equals 73 million PHP.

Indication of importance for further reform: Comparability of fiscal data in time and across the various fiscal reports is crucial for transparency and trust in the official data. The introduction in 2014 of the UACS should help address this issue. However, the absence of a common presentation prevents users from identifying easily the main gaps and investigating them.

Priority Recommendation No. 2 in Table 5: Present all forecasts and reports with the same budget structure and prepare reconciliation tables. This means that all fiscal reports should present the same aggregated classification to ensure comparability across themselves, with the help of bridging tables, and with the actual adopted budget, and not a 'modified' version of it.

Annex II. Second Pillar: Fiscal Forecasting and Budgeting

A. Fiscal Forecasting and Budgeting

2.1. Comprehensiveness: Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.

2.1.1. Budget Unity: Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature.

Assessment:	Importance for further reform:	Priority Recommendation:
 <p>Good</p>	<h1>Medium</h1>	<h1>No. 3</h1>

Assessment: The structure of the budget is complex and encompasses a large number of funds, which reflect various financial arrangements (Box 3). Appropriations detailed in the GAA comprise of regular appropriations for NGAs, Special Purpose Funds, and automatic appropriations permanently authorized by other laws, including debt service. Special legal provisions can, however, authorize agencies to retain some revenues and deposit them in commercial banks. The GAA does not authorize expenditure of those Off-Budget Accounts, but revenues and expenditures are fully reported in the financial statements produced by COA.

Box 3. Typology of Budgetary and Extrabudgetary Funds in the Philippines

The word “fund” is widely used in the context of the budget of the Philippines and encompasses various financial arrangements.

The **General Fund** refers to the national government account managed by BTR, where all revenues are deposited unless provided differently by law.

Special Purpose Funds (SPFs) are budget lines which are not allocated to NGA at the time of budget submission and are to be used for a pre-defined purpose. They comprise of centrally managed expenditure (budgetary support to GOCCs), contingency reserves (Calamity Fund), and other special budget lines. Most of the SPFs are actually implemented by NGAs during budget execution. There are 12 SPFs in the 2014 budget.

The **Unprogrammed Fund** is an SPF which comprises of unfunded programs at the date of budget submission. Those appropriations can, however, be released if additional resources (revenues, or loans in the case of donor-funded projects) are secured during budget execution (see principle 2.4.2).

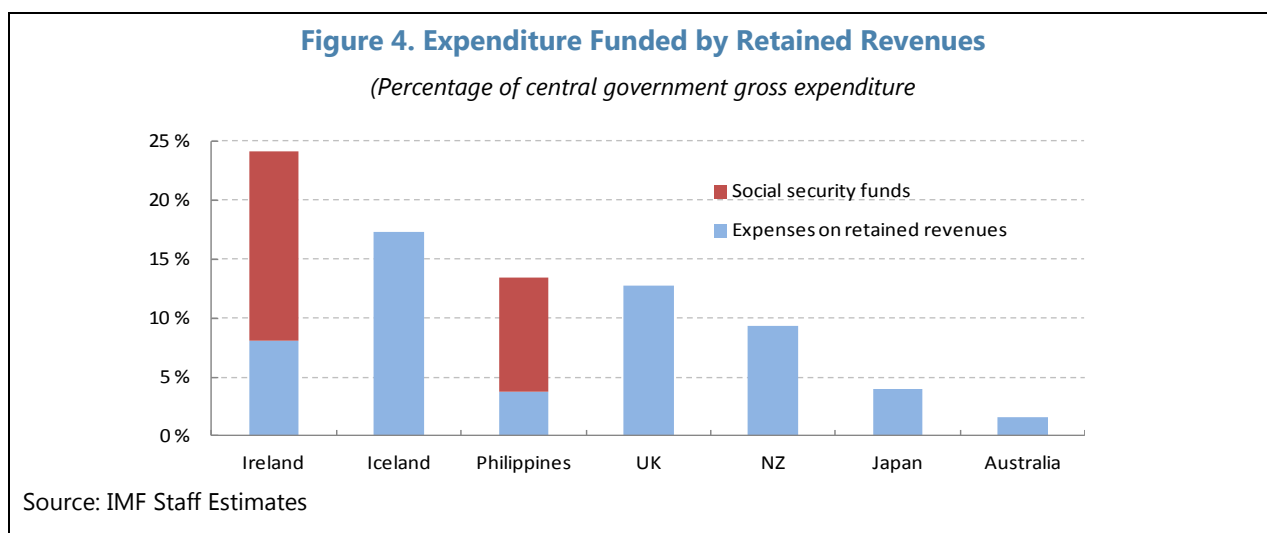
Special Accounts in the General Fund (SAGFs) are actual funds included in the budget. They receive own revenues earmarked by law, but their implementation abides by the general rules of the budget: agencies remit those revenues to the General Fund and expenditure is limited to appropriations released by DBM. SAGFs are, however, treated as automatic appropriations; thus, appropriations can be released beyond the initial forecast in the budget up to the available balance of the account. There are 65 SAGFs in the 2014 budget.

Off-Budget Accounts (also called off-budgetary funds) generally designate extrabudgetary funds, with cash deposited with government financial institutions outside the BTR. By law, agencies are allowed to retain some revenues and spend them during budget execution. There is no general framework for Off-Budget Accounts but the most common are Retained Income Funds (universities and hospitals fees), Revolving Funds (commercial activities of NGAs) and Trust Funds (donations and grants). There are currently about 200 Off-Budget Accounts.

Budget documentation now includes information on Off-Budget Accounts. Starting in 2014, the BESF includes an appendix detailing a list of Off-Budget Accounts by concerned agency, with for each entity (i) information on actual revenues, expenditures and balances for the last year, (ii) a forecast of revenues and expenditures for the current and forward year, and (iii) a short description of the fund, including its legal basis. According to the revenues statement included in the COA reports, this list covers about three-fourths of the revenues collected by Off-Budget Accounts in 2012. The authorities are committed to complete the list for the 2015 budget documentation.

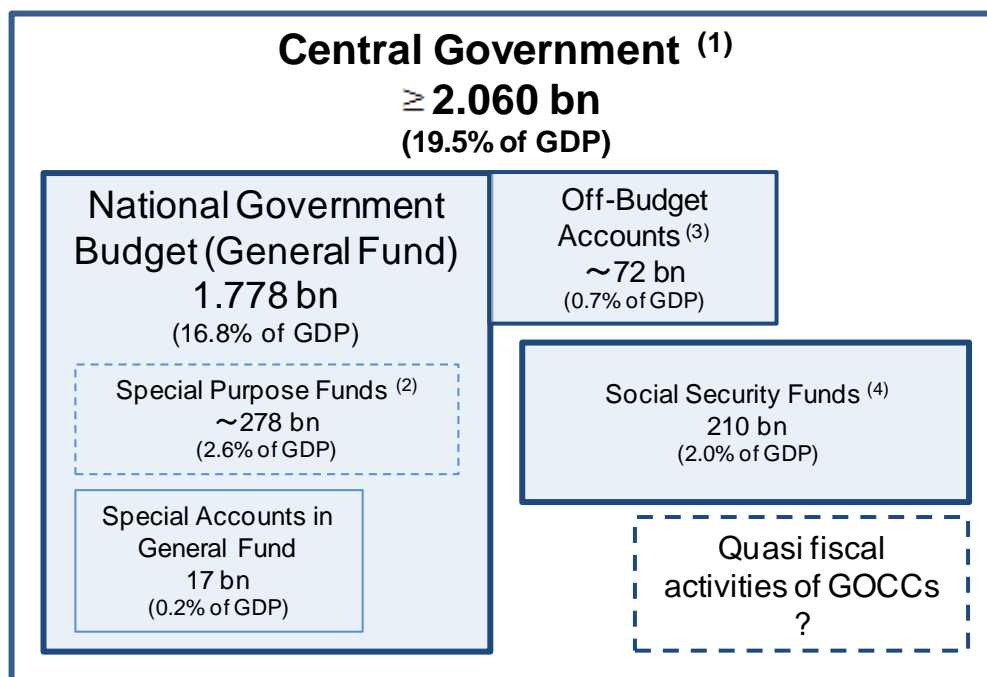
However, budget documentation on Social Security Institutions (SSI) remains limited. SSI are not included in the budget and are managed by four GOCCs (GSIS for civil government employees' pensions, SSS for non-government employees' pensions, and PhilHealth for mandatory health insurance, ECC for employees' work related injuries). Although the aggregated revenues and expenditures of major GOCCs are presented in an appendix to the BESF, SSI are not explicitly identified as such, and GSIS and SSS do not usually submit their figures on time for the BESF.

Indication of importance for further reform: A fragmented budget process hampers the ability of the government to reconcile its economic policy with detailed policy measures. This is because it (i) prevents an assessment of the overall macroeconomic impact of fiscal policy and (ii) limits reallocation from low-priority policies to high priority policies. Budget documentation should therefore present and discuss a consolidated view for central government revenue, expenditure, and financing.



In the Philippines, the size of central government operations not authorized by the budget is not out of line compared to other countries (Figure 4), with the qualification that the weight of quasi-fiscal activities of GOCCs is assumed to be limited (see Figure 5). However, this is a snapshot at the current moment in time; it is reasonable to assume that in particular the Social Security Funds—the largest share of unreported operations (about 2 percent of GDP)—are projected to grow dynamically in the future.

Figure 5. Evaluation of the Size and Composition of Central Government Expenditure in 2012



Source: DBM and COA reports, staff calculations

(1) Estimate of Central government total expenditure out of quasi-fiscal activities of GOCCs

(2) SPFs are assessed through release of appropriations and not disbursements (see detail in 2.4.2 Supplementary Budget)

(3) Off-Budget Accounts total expenditure is assessed through the report on remittance of NGAs revenues to the General Fund

(4) Social Security Funds expenses net of the NG subsidies to PhilHealth (14 bn in 2012)

The numerous Off-Budget Accounts do not represent a significant share of central government expenditure (some 3½ percent, or ¾ percent in terms of GDP), but those accounts tend to accumulate surpluses. Based on available information, the total balance of those funds at end-2012 is estimated at 1½ percent of GDP. Since the use of those accounts is not reported in the deficit objective of the government, there is a risk that those balances may be reallocated in the future to fund new policies outside of the budget process.


Priority recommendation No. 3 in Table 5: Prepare a comprehensive annual budget document covering the whole central government, and present mid-year and end-year reports with the same coverage. This entails the following:

- The BESF should be introduced with a note that would (i) present the macroeconomic environment and government forecasts, with a discussion of their underlying assumptions and impact on the fiscal aggregates; (ii) discuss the submitted budget in the context of fiscal policy objectives and the medium-term fiscal plan; (iii) detail the main policy choices with their financial impact over the next three years; and (iv) present and discuss aggregated fiscal forecasts for social security funds. The purpose of this note would be to provide technical details and reconciliation tables; it should not be confused with the President's message which has a more

political objective. This document should be completed with forecasts and a discussion of central government activities of GOCCs, once this information is available (see principle 1.1.1 “Coverage of institutions”).

- The mid-year and end-year reports should follow a similar outline and present updated forecasts or actuals compared with both the initial adopted budget and the previous year’s actuals. Differences between successive vintages of fiscal forecasts and between forecasts and actuals should be broken down into the effect of policy decisions, macroeconomic determinants, and technical revisions.

Moreover, implementation of the priority recommendation No. 10 presented under principle 2.4.2 would also have a positive impact on Budget Unity (*Tailor budget flexibility to actual needs by streamlining earmarking and Special Purpose Funds, including the Unprogrammed Fund*).

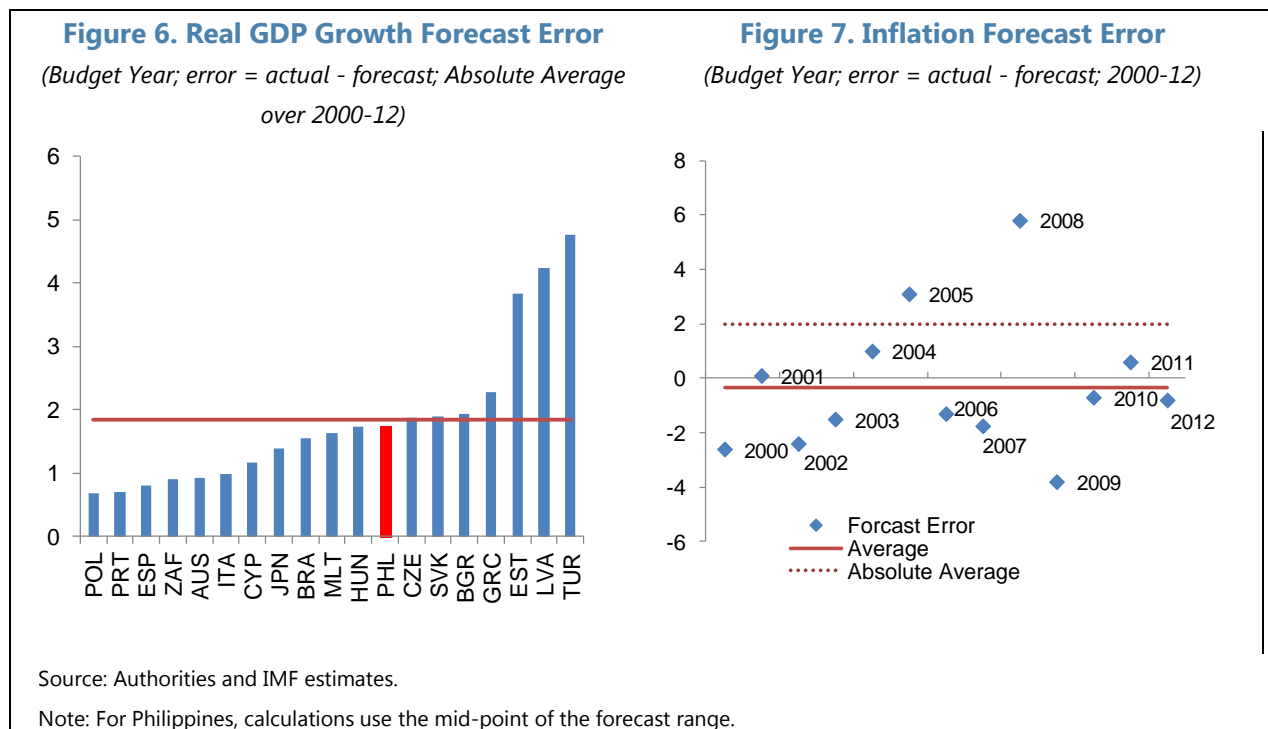
2.1.2. Macroeconomic Forecasts: The budget projections are based on comprehensive macroeconomic forecasts which are disclosed and explained.		
Assessment: 	Importance for further reform: <h1 style="color: blue;">Low</h1>	Priority Recommendation: <h1 style="color: blue;">No. 3</h1>

Assessment: Budget documentation presents forecasts of macroeconomic variables. The assumptions underlying the budget are prepared and approved by an interagency committee (DBCC) comprising the BSP, DBM, DOF, and NEDA. When budget preparation begins in December, the DBCC sends to departments and agencies projections of key variables for the budget year and the following year as part of the Budget Priorities Framework (BPF). Updated tables, with a more comprehensive set of variables and a three-year horizon, are published in July in the BESF. Forecasts cover production, income, inflation, unemployment, interest rates, exchange rates, crude oil prices, exports, imports, and international reserves. DBCC members present these forecasts and underlying assumptions to Parliament at the time of budget submission in a series of Powerpoints that are not made available online. The assumptions are subsequently scrutinized by the Congressional Policy and Budget Research Department (CPBRD), which publishes an independent evaluation (“The Macroeconomic Perspective”).

Indication of importance for further reform: Accurate and unbiased macroeconomic forecasts are essential to sound budget preparation and management, as fiscal slippages are often related to overoptimistic growth assumptions, in particular in upturns. With regard to real GDP, Philippines’ forecasting record is close to the average of comparator countries, both in terms of bias and accuracy (Figure 6). On average, annual real growth is overestimated by 0.6 percentage points, while the absolute forecast error is about 1.7 percentage points per year over 2000–12. Inflation projections are prepared by the BSP with advanced forecasting techniques—both econometric and model-based. These projections do not present a bias, but the absolute forecast error, equivalent to 2 percentage points per year, is significant, with the largest errors being recorded during the crisis

years (Figure 7). The difficulty to predict inflation is partly related to the prevalence of natural calamities (typhoons, earthquakes), which result in sizeable supply shocks.

Priority recommendation: See priority recommendation No. 3 discussed in principle 2.1.1 “Budget Unity” (Prepare a comprehensive annual budget document covering the whole central government, and present mid-year and end-year reports in reference to it).



2.1.3. Medium-term Budget Framework: Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium-term on the same basis as the annual budget.

<p>Assessment:</p> <div style="text-align: center; border: 1px solid black; padding: 5px; width: 50px; margin: 0 auto;"> <p>Basic</p> </div>	<p>Importance for further reform:</p> <h1 style="color: blue; margin: 0;">Medium</h1>	<p>Priority Recommendation:</p> <h1 style="color: blue; margin: 0;">No. 9</h1>
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Assessment: The authorities are in the process of implementing an MTBF. Since 2013, budget documentation has included three-year projections of aggregate revenue, expenditure, and financing in cash for the national government. Medium-term expenditure is broken down into current spending, capital spending, and net lending. There is no detailed breakdown by program, or agency beyond the budget year. Moreover, the DBM prepares forward estimates (projected commitments under current policy), which are sent to departments and agencies at the beginning of the budget process and serve as their indicative budget ceilings. These entities have to prepare their budget proposals with a two-year horizon in program format (budget year plus following year).

Indication of importance for further reform: PFM outcomes can greatly improve by adopting a forward-looking perspective on budgeting. MTBFs enable governments to demonstrate the impact of current and proposed policies over the course of several years, signal or set future budget priorities, and ultimately achieve better control of public expenditure. The Philippines is still at the early stages of this process and would greatly benefit from further integrating medium-term plans into the annual budget process.

Priority recommendation No. 9 in Table 4: *Shift to a full-fledged indicative MTBF would require that multi-year expenditure and revenue estimates presented with the annual budget reflect the future costs of current and future policies.* As a first step, medium-term expenditure plans should be presented in a framework similar to the annual budget, that is by department or agency (and, eventually, by program). Departments and agencies should prepare their budgets with a three-year horizon. In addition, the consistency of updated medium-term expenditure projections with approved expenditure plans should be monitored ex post and enforced to strengthen expenditure control.

2.1.4. Investment Projects: The government regularly discloses its financial commitments under multi-annual investment projects and subjects all major projects to cost-benefit analysis and open and competitive tender.

Assessment: 	Importance for further reform: <h1 style="text-align: center; color: #0070C0;">Medium</h1>	Priority Recommendation: 
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Assessment: All major investment projects over PHP1 billion are disclosed on an annual basis in the ODA Portfolio Review produced by NEDA. The information available includes the total cost, a description of the project, and the source of financing. The projects worth over PHP1 billion are almost exclusively financed through foreign concessional financing and thus go through a feasibility study, which includes a cost-benefit analysis as well environmental impact assessments. However, these major projects only represent around one-tenth of investment expenditure. The majority of projects are much smaller, domestically-financed investments. The budget details each investment and provides information on the annual spending for each project, although it falls short of providing details on multi-annual obligations. While these individual investments are smaller, they are often approved under larger banner programs, such as road and bridge upgrades, that are not subject to the same feasibility studies as the major projects. Publicly available information indicates that between 50 and 75 percent of public contracts are awarded on the basis of open competition, although all major foreign financed investments are put out for open tender.

Indication of importance for further reform: Public infrastructure expenditure makes up only about 4 percent of GDP, of which only the foreign-financed investments worth 0.4 percent of GDP have their multi-annual contractual data fully disclosed and are subjected to cost-benefit analyses. While the remaining 3½ percent of GDP of domestically-financed projects are much smaller in nature, the fact that they make up the vast majority of infrastructure increases the

importance of publicly providing their obligations and rationale for being approved. The recent improvements in procurement practices means the majority of investments are openly tendered.

Priority recommendation None.

B. Orderliness of Fiscal Forecasting and Budgeting

2.2. Orderliness: *The fiscal powers of the executive, legislative, and judicial branches of government should be defined in law, and the government budget should be presented, debated and approved in a timely manner.*

2.2.1. Fiscal Legislation: The legal framework clearly defines the government’s responsibilities, decision-making processes, and reporting obligations with respect to the collection and use of public resources.

Assessment:	Importance for further reform:	Priority Recommendation:
 Advanced	Low	

Assessment: **The legal framework is comprehensive and covers most aspects of PFM.** The responsibilities regarding revenue collection, budget preparation and execution are defined in Book IV of the 1987 Administrative Code. Article IX of the Constitution gives mandate to COA for accounting and auditing all levels of government. Decision-making processes, including guidelines for preparing the budget and managing expenditure, are governed by Book VI of the Administrative Code. The general requirements for the content of reporting are provided by the Constitution (Annual Financial Reports), Book VI of the Administrative Code, the general provisions in the GAA, and in various other pieces of legislations. All such rules are further specified into circulars. Recent improvements include the adoption of a GOCC Governance Act in 2011 and of the “Transparency Seal”, which requires each NGA to post on its official website a complete set of information, including its official mandate and annual financial reports.

However, the legal framework suffers somewhat from fragmentation. This is well illustrated by the general provisions of the GAA, which in many instances mention the various regulations NGAs must abide by to avoid them being overlooked. In addition, the many Special Accounts in the General Fund and Off-Budget Accounts are created by separate laws outside of the budget process and tend to define one-off regimes that do not always appear to be consistent with the overall budget framework.

Indication of importance for further reform: **Although the legal framework comprehensively covers most PFM aspects, full transparency would suggest that it also be clear, self-consistent, and easily accessible.** The instances of fragmentation, especially regarding Special Accounts and Off-Budget Accounts, suggest that the authorities should assess to what extent the multitude of laws are fully compatible. Undertaking such an assessment goes beyond the scope of this *FTE*.

Priority recommendation: None.

2.2.2. Timeliness of Budget Documents: The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget and related forecasts.

Assessment: 	Importance for further reform: Low	Priority Recommendation: —
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Assessment: The budget is submitted to the legislature and made available to the public more than three months before the start of the financial year and is usually approved and published by the start of the financial year. Timeliness of budget submission and approval is provided by the Constitution. Indeed, Section 22 of Article VII and Section 26 of Article VI of the Constitution stipulate that the President must submit the BESF to Congress within 30 days from the beginning of the regular session of Congress (fourth Monday of July) and Congress must pass the GAA before the beginning of the financial year. Otherwise, the GAA from the previous year is automatically reenacted, which used to happen regularly until the 2009 budget, as noted by the 2010 PEFA assessment. Table 9 presents recent submission and publication dates.

	FY 2011	FY 2012	FY 2013	FY 2014
Submission of budget to the legislature ⁽¹⁾	8/24/10	7/26/11	7/24/12	7/23/13
Approval and publication of the budget ⁽²⁾	12/20/10	01/01/12	12/28/12	12/27/13

Source: Country Authorities.
 (1) Date of the President's budget message to Congress
 (2) Date of publication of the General Appropriation Act by the Official Gazette

Indication of importance for further reform: There currently is no immediate need for further reform. However, the approval and publication of the budget has been uncomfortably close to the start of the new financial year, which may create a legal uncertainty should this publication be accidentally delayed into the first days of January.

Priority recommendation: None.

C. Policy Orientation

2.3. Policy Orientation: Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.


2.3.1. Fiscal Policy Objectives: The government states and reports on clear and measurable objectives for the public finances.

Assessment: 	Importance for further reform: Low	Priority Recommendation: —
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Assessment: Fiscal policy is not guided by a fiscal rule per se. However, the 2011-16 PDP has set several numerical fiscal objectives, including a 2 percent ceiling on the deficit, and annual targets for revenue effort (see Figure 1 above).⁵ The government regularly reports on the achievement of its annual budget objectives in the *Year-End Report on the National Budget*, but there is no systematic reference to multi-year PDP targets. The FRS also analyzes the fiscal outcomes of the preceding year. A comprehensive evaluation of the PDP is currently under preparation, and should be published in the first quarter of 2014. In parallel, the CPBRD prepares an annual evaluation of the budget proposal in the fall, in which it assesses fiscal performance relative to targets.

Indication of importance for further reform: The advantages of more binding fiscal targets may not be sufficiently high to warrant changes to the status quo. Binding multi-year fiscal targets, including fiscal rules, aim at correcting distorted policy incentives and containing pressures to overspend, in particular in good times, so as to ensure fiscal responsibility and debt sustainability. In the Philippines, the adoption of a more formal fiscal rule and/or a broader set of fiscal targets (including on public debt) could further strengthen the commitment to fiscal prudence, but these reforms are not the most pressing ones. Indeed, Philippines's budget deficit ceiling of 2 percent of GDP is sufficient to ensure debt sustainability over the medium-term (see principle 3.1.3), and there is no systematic deviation from expenditure plans (see principle 2.4.2).

Priority recommendation: None

2.3.2. Performance Information: Budget documentation provides information regarding the objectives and results achieved under each major government policy area.		
Assessment: 	Importance for further reform: Low	Priority Recommendation: —

Assessment: The Philippines began introducing elements of performance-oriented budgeting in 1998. An important step was made in 2007 with the first publication of a *Book of Outputs*, which is a stand-alone document presenting for each NGA a list of performance indicators organized around their main deliverables (goods or services), or *Major Final Outputs* (MFOs). This document has gradually been improved by presenting the results from the previous year next to their respective initial targets and the new targets for the coming year. However, the *Book of Outputs* does not form part of the formal budget submission, and many indicators are still reflecting inputs.



A major reform took place for the 2014 budget year. For the first time, performance information was introduced into the structure of the budget document. The new GAA presents for each NGA (i)

⁵ According to the PDP, the national government deficit should decline to 2 percent of GDP by 2013 and be maintained at this level until 2016. The tax effort should increase to 15.6 percent of GDP by 2016, with annual increases of 0.3 (resp. 0.1) percentage points in tax collection by the domestic revenue service (resp. customs).

its strategic objectives, (ii) the levels of appropriations classified according to both MFOs and a new program classification, and (iii) output performance targets for the coming fiscal year.

Indication of importance for further reform: Performance information can have a positive impact on public policies when it informs budget decision-making. Incorporating such information into budget documentation is an important step which should be consolidated by integrating it further into the budget process and encouraging budget officials to use it. With the recent adoption of new output indicators, and the commitment to introduce outcome indicators in the near future, a challenge will be to ensure quality and timely reporting of these data in a clear and transparent way.

Priority recommendation: None

2.3.3. Public Participation: The government provides citizens an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.		
Assessment: 	Importance for further reform: Low	Priority Recommendation: 

Assessment: The authorities prepare an annual publication for the public, in which they provide an accessible description of the budget, report on recent fiscal outcomes, and explain economic prospects in a clear and appealing way. A website (www.budgetngebayan.com) also provides a wealth of information on the budget. These documents show the implications of the budget programs on different population groups, in particular when it comes to poverty reduction and assistance to the most vulnerable. For instance, the *People's Budget 2013* explains how children should benefit from expenditure programs with better access to education and health services.



The government also offers citizens a formal voice in budget decisions. Through an initiative called *Grassroots Participatory Budgeting Process*, the budget proposals of agencies take into consideration the development needs of cities and municipalities as identified in their respective local poverty reduction action plans formulated with the participation of basic sector organizations (BSOs) and civil society organizations (CSOs). In addition, the *Budget Partnership Agreements* initiative should enhance the policy framework and capacity of CSOs to effectively participate in the national budget process, including by mandating selected NGAs and GOCCs to establish partnerships with CSOs in the preparation and implementation of their respective budgets.

Indication of importance for further reform: Reforms in this area have been commendable and resulted in an “advanced” rating. The authorities may want to continuously seek opportunities to further enhance their engagement with the public. Reforms suggested under other principles, such as in the reporting and budgeting areas, will also be conducive to fostering public participation.

Priority recommendation: None

D. Credibility


2.4. Credibility: *Economic and fiscal forecasts and budgets should be credible.*

2.4.1. Independent Evaluation: The government's economic and fiscal forecasts and performance are subject to independent evaluation.		
Assessment: 	Importance for further reform: <h1 style="color: blue;">Medium</h1>	Priority Recommendation: 

Assessment: The Congressional Policy and Budget Research Department (CPBRD) was created in 1990 as part of the Secretariat of the House of Representatives. Its task is to conduct an independent assessment of the draft budget submitted by the Executive, provide members with analyses on the economic and fiscal implications of various policies, and report on recent socio-economic developments. With a technical staff of 25, the CPBRD publishes online various reports, including a handbook designed to help Representatives read the budget (the *Legislator's Guide In Analyzing the National Budget*). Several *Budget Briefers* have been produced which notably (i) assess macroeconomic assumptions (past performance in forecasting GDP; comparison with IMF, World Bank, and ADB forecasts); (ii) present CPBRD's alternative revenue projections; and (iii) evaluate the individual budgets of NGAs. However, CPBRD does not prepare ex-post assessments of budget execution or performance against fiscal objectives and its autonomy, inside the House administration, remains limited.

Indication of importance for further reform: Fiscal councils (FCs) are non-partisan bodies established by governments to actively inform the public debate on fiscal policy. A FC's core mandate generally includes (i) assessing the quality of macroeconomic and budget forecasts and preparing independent projections; (ii) identifying the main sources of fiscal risks; (iii) evaluating fiscal sustainability; and (iv) examining fiscal outcomes in light of government commitments and objectives. A FC's main purpose is to limit the "deficit bias" and pro-cyclicality that characterize the fiscal stance of many countries, by raising the reputational costs for policymakers of deviating from public commitments to sound fiscal policy. The effectiveness of an FC thus rests on its ability to improve transparency and democratic accountability. International experience suggests well-designed FCs can promote stronger fiscal discipline. In the Philippines, the CPBRD plays an important role in providing an independent evaluation of the government's policy intentions, but its impact could be further enhanced by preparing an ex-post assessment of budget execution and fiscal performance. This assessment should compare fiscal performance with the government's fiscal objectives and include a discussion of the material changes to the government initial plan.

Priority recommendation: None

2.4.2. Supplementary Budget: Any material changes to the approved budget are authorized by the legislature.		
Assessment: 	Importance for further reform: High	Priority Recommendation: No. 4 & 10

Assessment: This principle cannot be rated against the draft *Fiscal Transparency Code* due to the complexities of the budget system in Philippines. This reflects three particular features of the system:

- **On the one hand, consistent with good practice, expenditure cannot be obligated without appropriations which can be solely authorized by Parliament.** Supplementary appropriations, if needed, require prior approval by Parliament as well. For example, a *Supplementary Appropriation Act* was passed at end-2013 to increase the *Calamity Fund* in order to support the areas devastated by typhoon Yolanda. Overdrafts, defined as obligations incurred by NGAs without appropriation authority, are strictly prohibited, and officials responsible for any are personally liable. As a result, overdrafts are scarce and COA reported only PHP350 million in overdraft obligations in 2012, equivalent to 0.02 percent of the initial budget.
- **On the other hand, total obligations during a fiscal year may significantly deviate from the initial assumption of the budget.** The GAA details the *Obligation Program* of the government, which is consistent with the fiscal deficit objective of 2 percent of GDP on a cash basis. But the total amount of *available* appropriations continuously exceeds this program, because (i) unobligated appropriations from the previous year can be carried over to some extent (continuing appropriations) and (ii) the GAA purposely provides an *Unprogrammed Fund* that can be released during the year under predefined circumstances. In 2012, the *Unprogrammed Fund* authorized by the GAA represented about 8½ percent of the initial budget (1½ percent of GDP). The government released half of it, increasing the obligation program by 4.2 percent.
- **The above is compounded by the considerable flexibility enjoyed by the Executive during budget execution.** This flexibility allows the government to affect the *allocation and composition* of appropriations to NGAs during the course of the fiscal year which ultimately sharply limits the comparability of the detailed actual obligations with the initial plan adopted in the GAA. First, the President can reallocate appropriations between agencies, with some limitations. Second, appropriations are gradually released to departments (allotments) by DBM, based on its assessment of whether the government will be able to meet its overall fiscal deficit target; as a result, NGAs cannot access all their programmed appropriations. Third, the aforementioned *Unprogrammed Fund* and continuing appropriations can be released. And fourth, other lines in the budget (*Special Purpose Funds* and some automatic appropriations) are transferred to NGA budget lines during the year for implementation.

Indication of importance for further reform: The above assessment and rating is consistent with the 2010 PEFA assessment. That assessment also concluded that it was impossible to rate the two PEFA indicators related to the aggregate and composition of expenditure outturns compared to the initial budget. This lack of comparability occurs even though all detailed data are regularly published.

While many countries provide some flexibility to the Executive in budget execution to meet fiscal policy objectives and facilitate the delivery of key government services, the combination and cumulative effect of the particular features in the Philippines' budget system appears unusually large (Table 10). As such, apart from representing a major transparency concern, they pose a potential risk to macroeconomic stability. This is the case even though over the last decade this overall flexibility did not on average result in large deviations from the initial total obligation program both in absolute values and compared to other countries (Figures 8 and 9 above). However, past performance is not reassuring in this regard, as the political and economic environment may change.

Table 10. Modification of the 2012 Obligation Program by Executive Decisions

	Alteration of the initial obligation program (1)	Total authorized expenditure	Expenditure reported to NGA (2)
Reallocations between lines	+ 3.7%	0.0%	- 0.2%
Limited allotments	+ 2.5%	- 2.5%	- 1.5%
Continuing appropriations	+ 1.5%	+ 1.5%	+ 1.9%
Unprogrammed Fund	+ 4.2%	+ 4.2%	+ 0.8%
Special Purpose Funds and Automatic Appropriations (3)	n/a	0.0%	+ 22.6%
Total impact on initial obligation program	+ 11.9%	+ 3.1%	+ 23.5%

Source: DBM data and IMF staff calculations. All percentages are based on released appropriations during FY 2012 at departmental level.

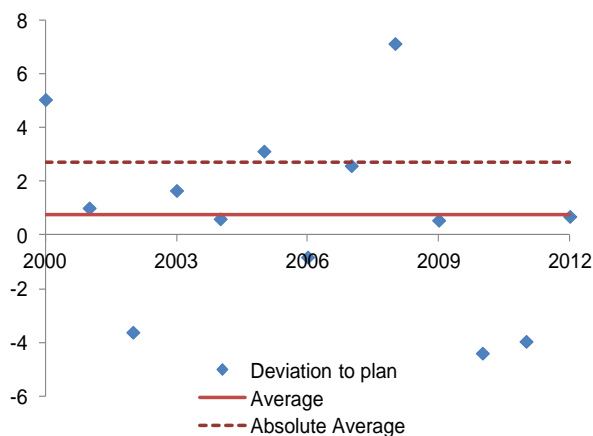
(1) Alteration is expressed as the total amount of appropriations shifted, added, or retained from departmental budget lines, in percent of the initial total obligation program.

(2) The impact on total expenditure managed by NGAs is expressed as a share of the obligation program originally allocated to departments (48 percent of total expenditure).

(3) Although the release of Special Purpose Funds and automatic appropriations do increase the level of expenditure managed by NGAs, they are not considered here as altering the initial distribution, since they are still employed for their intended purpose.

Figure 8. Overall Deviation to Obligation Program

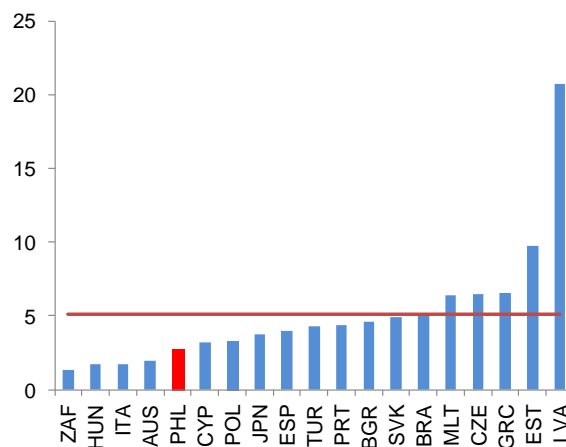
(Budget Preparation Year; 2000–12; error = (actual-plan) / plan)



Source: Authorities and IMF estimates.

Figure 9. Expenditure Revisions

Budget Year; 2000–12; error = (actual-plan) / plan; absolute average



Priority recommendations No. 4 and 10 in Table 5:

- Publish a detailed quarterly statement on the management of budget execution, including contingency provisions.** This statement should accompany the existing *Statement of Allotment, Obligation and Balances (SAOB)* and describe, with reconciliations tables, the decisions made by the Executive since the start of the fiscal year on (i) realignment and release of appropriations; (ii) carryover and release of continuing appropriations; (iii) use of the contingency funds, including the *Unprogrammed Fund* and other Special Purpose Funds; and (iv) other technical changes to the obligation program such as the release of automatic appropriations implemented by NGAs. An overall discussion of the drivers for those changes should be included to state explicitly the policy of the government in the implementation of the budget.
- Tailor budget flexibility to actual needs by streamlining earmarking and Special Purpose Funds, including the Unprogrammed Fund.** The authorities may want to reflect on the budget framework in all its dimensions and question the relevance of its existing arrangements. At least two issues should be assessed. First, earmarking should be governed by a clearer framework that would (i) reintegrate all off-budget accounts into the budget; (ii) define a limited number of regimes for special accounts; and (iii) reduce the overall number of special accounts to a manageable figure. Second, a review of Special Purpose Funds and automatic appropriations should be conducted. In particular, the authorities could reconsider the usefulness of the *Unprogrammed Fund* in the context of a recalibration of other contingency funds, and envisage making more regular use of the Supplementary Budgets for exceptional measures.

2.4.3. Forecast Reconciliation: Budget documentation and any subsequent updates explain any material changes to the government’s previous fiscal forecasts, distinguishing the fiscal impact of new policy measures.

Assessment: 	Importance for further reform: <h1 style="text-align: center;">High</h1>	Priority Recommendation: <h1 style="text-align: center;">No. 2 & 3</h1>
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Assessment: The BESF regularly discloses an update for the current year budget, with information as detailed as the initial budget. However, as discussed under principle 2.4.2, comparability of successive budget documents has been limited for some time except for the level of aggregated cash figures (Revenue Program and NG Cash Disbursements).

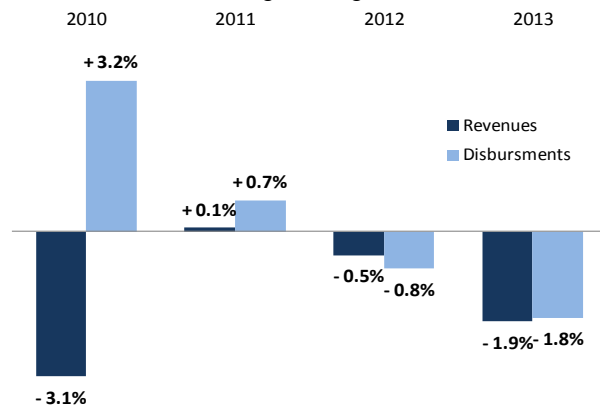
In an effort to improve transparency, the DBCC published a *Mid-Year Report on the National Budget for the first time in September 2013*. The report discusses both the results of the first half of the year, including macroeconomic and fiscal performance, and the macroeconomic and fiscal outlook for the remainder of the year. Although the document provides much information, it still has some deficiencies to allow for a proper comparison between initial and updated plans. On the one hand, discussion of changes to macroeconomic forecasts, as well as revenue and spending developments, is detailed and thorough. On the other hand, the comparability is somewhat blurred by the fact that the initial budget plans were adjusted to reflect (i) the implication of the lower base numbers for 2012 in key fiscal aggregates; and (ii) the changes made by Congress when it approved the GAA and revisions on macro and revenue projections. These changes should have been properly flagged.

Indication of importance for further reform: Mid-Year revisions to the budget in the past few years were limited (Figure 10), even if in 2010 they led to an increase in the deficit forecast of 0.9 percent of GDP. But the quality of the mid-year forecasts could be enhanced considering the large deviations observed in recent years between the mid-year forecasts and the actuals, with a regular overestimation of both revenues and disbursements (Figure 11). It is likely that the increased transparency on these forecasts made possible by the innovative *Mid-Year Report on the National Budget* would ultimately lead to an improvement in their quality.

Priority recommendation No. 2 and 3 in Table 5: See discussion of priority recommendations 2 and 3 under principles 2.1.1 “Budget Unity” (Prepare a comprehensive annual budget document covering the whole central government, and present mid-year and end-year reports in reference to it) and 1.4.3 “Comparability of Fiscal Data” (Present all forecasts and reports with the same budget structure and prepare reconciliation tables).

Figure 10. Revisions in the Mid Year Update

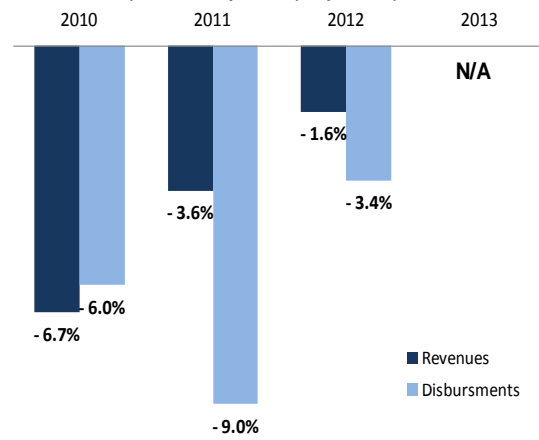
(Cash revenues and disbursements of NG - (update-budget)/budget)



Source: Authorities and IMF estimates.

Figure 11. Forecast Error of the Update

(Cash revenues and disbursements of NG - (actual-update)/update)



Annex III. Third Pillar: Fiscal Risk Analysis and Management

A. Risk Disclosure and Analysis

3.1. Risk Disclosure and Analysis: Governments should publish regular summary reports on risks to their fiscal prospects.

3.1.1. Macroeconomic Risks: The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic shocks.

Assessment:	Importance for further reform:	Priority Recommendation:
 <p>Good</p>	<p>Low</p>	<p>—</p>

Assessment: The FRS analyzes macroeconomic risks, and evaluates the impact of a series of macroeconomic shocks on government revenue, spending and the fiscal balance. In this sensitivity analysis, macroeconomic shocks are standardized rather than calibrated to the actual risks faced by the Philippine economy. The report also simulates national government debt under two extreme growth scenarios. Finally, a fan chart presents a range of debt paths using the historical volatility of macro-financial data. Overall, the FRS includes detailed charts and tables showing the implications of macroeconomic volatility on fiscal outcomes. This information could be further exploited; currently, the write-up accompanying the calculations is too concise.

Indication of importance for further reform: Macroeconomic risks have been relatively contained in the Philippines since the early 2000s. The volatility of nominal GDP growth has been lower than in comparator countries, on account of lower price volatility (Figures 12 and 13). The coefficient of variation of government revenue is also significantly below average.

Figure 12. Coefficient of Variation of Nominal GDP Growth

(South East Asia countries; 2002–12)

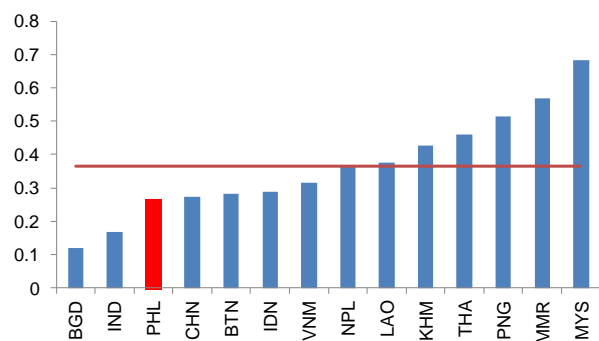
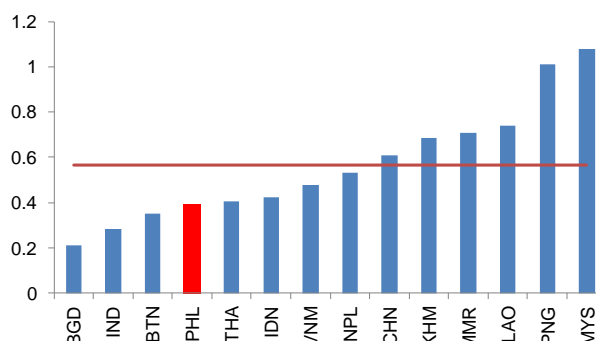


Figure 13. Coefficient of Variation of GDP Deflator



(South East Asia countries; 2002–12)



Source: World Economic Outlook Database, and IMF Staff Estimates.

Note: The coefficient of variation is its standard deviation divided by its mean.

Priority recommendation: None

3.1.2. Specific Fiscal Risks: The government provides a regular summary report on the main specific risks to its fiscal forecasts.		
Assessment: 	Importance for further reform: Low	Priority Recommendation: 

Assessment: The government produces a relatively comprehensive FRS that brings together a broad range of information on the main risk to public finances. It offers details around macroeconomic sensitivity analysis, as well as information on the financial sector, sub-national sector, public corporations, public private partnerships, and natural disasters. In many cases, the potential magnitude of the risk is quantified, and in some cases the likelihood of them bearing out are discussed. The statement also discusses risk mitigation and management strategies.

While the report provides an impressive collation of information, there remain a number of areas that could be provided, as also outlined in the discussion on other principles. In particular, while the national governments' exposure to guarantees for public corporations are discussed, some other contractual obligations of the government are not yet captured, such as guarantees other than those issued to GOCCs (see principle 3.2.4), as well as indemnities, callable capital in financial institutions, letters of comfort, and outstanding litigation cases. In some of those cases, the government's exposure could potentially be quantified, such as unreported guarantees and letters of comfort, while in others this may be a challenge or not desirable, such as open-ended indemnities or outstanding legal cases. Finally, there are often implicit liabilities, such as the pressure to stand behind systemically important banks—even if there is no contractual obligation.

Indication of importance for further reform: The Philippines has a considerable exposure to fiscal risks, with contingent liabilities of as much as 94 percent of GDP. The 2013 report provided information on 7 percent of GDP of contingent liabilities, which were composed largely of the explicit or implicit guarantees to GOCCs, though not including the liabilities of the BSP. In earlier years, the statement also provided information on the extent of exposure to deposit insurance (15 percent of GDP), although this was not included in the 2013 report. The unreported contingent liabilities include the net present value of unfunded liabilities of the social security funds (GSI and SSS) and health fund (Philhealth), guarantees issued by GOCCs to the private sector, and contingent liabilities to PPPs (Table 11). Broadening the coverage of the FRS to include these elements would strengthen the analysis of fiscal risks and bring it into line with cutting-edge international practice.

Priority recommendation: None

Table 11. Selected Contingent Liabilities, 2012

	PHP billion	Percent of GDP	Incl in FRS
Explicitly guaranteed GOCC liabilities	755	7.1	Reported
Implicitly guaranteed GOCC liabilities	6,410	60.7	
Central Bank liabilities	3,911	37.0	Not reported
Non Central bank liabilities	2,499	24	Reported
NPV of pension unfunded liabilities*	1,000	9.5	Not reported
Guarantees Issued by GOCCs	1,689	16.0	
Deposit insurance	1,595	15.1	Not reported
Mortgage insurance	78	0.7	Not reported
Guarantees to banks (Export/import)	15	0.1	Not reported
Guarantees to banks (small business)	1	0.0	Not reported
Guarantees to PPPs	?	?	Not reported
Unfunded liability of Philhealth	?	?	Not reported
Aggregate	9,854	93.3	

Sources: AFR, GOCC annual reports, and FRS.

3.1.3. Long-Term Fiscal Sustainability Analysis: The government regularly publishes projections of the evolution of the public finances over the long-term.

Assessment:	Importance for further reform:	Priority Recommendation:
	Medium	No. 5

Assessment: The FRS presents a detailed and comprehensive sensitivity analysis of the national government's debt dynamics until 2016. A confidence interval for the baseline debt path is calculated using the historical volatility of macroeconomic and financial variables. The report also shows alternative debt paths under four macroeconomic scenarios and illustrates the short-term response of the debt ratio to interest and exchange rate shocks. Notwithstanding the application of advanced statistical techniques, all these simulations and sensitivity analyses are currently insufficient to assess long-term fiscal sustainability. By limiting the forecast horizon to the term of the current administration, the FRS is silent on the evolution of public debt over a longer time horizon. In addition, health and pension projections are not currently included in the exercise.

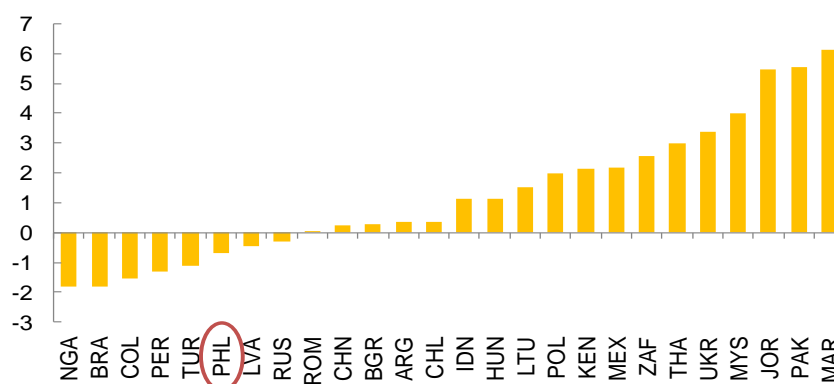
Indication of importance for further reform: The Philippines has succeeded in almost halving its debt ratio over the past decade. General government debt (as defined in the WEO) now amounts to about 40 percent of GDP—a level deemed safe for emerging market economies. Looking forward, risks to debt sustainability seem thus limited. Medium-term adjustment needs to

stabilize debt are close to zero, which contrasts with many peer countries (Figure 14).⁶ Age-related pressures are contained due to the demographic structure of the population (Figures 15 and 16). Nonetheless, the 2013 Article IV Consultation noted that vulnerabilities still exist: public debt and gross funding requirements, as a share of government revenue, are larger than the average of emerging countries. Dependence on external debt is high compared to ASEAN countries, China, and India. Moreover, the health and pension funds are not actuarially balanced under current premium and contribution policies. The social security system has unfunded liabilities amounting to about PHP 1 trillion and plans to progressively raise its contribution rates to close the funding gap without government intervention.

Priority recommendation No. 5 in Table 5: To assess fiscal sustainability, extend DSA projections at least over 10 years. Macroeconomic variables could be projected using technical assumptions—for instance, by assuming that the output gap closes and GDP growth converges towards potential. In addition, health and pension projections over the medium- to long-term should be presented and discussed in the FRS.

Figure 14. Required Fiscal Adjustment Between 2013 and 2020 to Achieve Debt Target in 2030

(Percent of GDP; Emerging Market Economies)



Source: IMF, *Fiscal Monitor*, October 2013.

Note: Required adjustment is defined as the change in the cyclically-adjusted primary balance needed to bring the debt ratio down to 40 percent of GDP in 2030 (or to stabilize it if the initial ratio is lower). Interest-growth differentials are country-specific.

⁶ This is under the assumption that the authorities do not deviate from their commitment to keep the deficit below 2 percent of GDP.

Figure 15. Public Pension Expenditure
(Percent of GDP)

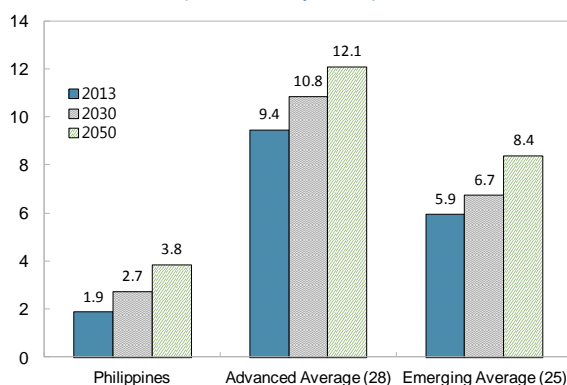
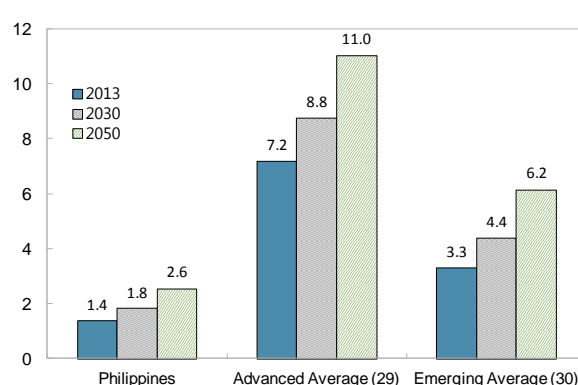


Figure 16. Public Health Expenditure
(Percent of GDP)



Source: IMF, *Fiscal Monitor*, October 2013.

B. Risk Management

3.2. Risk Management: Specific risks to the public finances should be regularly monitored, disclosed, and managed.

3.2.1. Budgetary Contingencies: The budget has adequate and transparent provision for contingencies that arise during budget execution.

Assessment:	Importance for further reform:	Priority Recommendation:
 Good	Medium	No. 4

Assessment: The 2014 budget includes small amounts for contingencies within total budgeted expenditure. Contingencies include: (i) PHP 1.3 billion in the *Contingent Fund*; and (ii) PHP 7.5 billion in the *Calamity Fund* (since renamed the *National Disaster Risk Reduction Fund*). Both are jointly equivalent to 0.1 percent of GDP, or 0.5 percent of expenditure. The former fund is available for all types of spending, while the second is set aside only for spending following a calamity, such as typhoon Yolanda in recognition of the large environmental risks facing the country.


In addition, the government regularly uses additional sources that do not fall within the expenditure aggregates to fund unanticipated spending. Those include the *Unprogrammed Fund* and a range of other off-budget funds. The amounts available from these sources vary, but are underpinned by the PHP 139 billion *Unprogrammed Fund*.

The appropriations for the funds provide guidance on what the funds can be used for, and who is responsible for administering them, although this could be tightened somewhat. The *Contingent Fund* can be used to finance new and/or urgent projects and activities that need to be implemented within the year, although it may also be used to augment appropriations for

presidential travel. This provides for a fairly broad range of expenditures. The *Calamity Fund's* usage requirements are considerably tighter, and related to relief, rehabilitation and reconstruction related to calamities and disasters. The *Unprogrammed Fund* has more varied usage requirements, such as reconstruction and rehabilitation and funding business-type activities of agencies. The outturn documents provide a breakdown of expenditure in the fund, but these are only provided at year's end, except the *President's Social Fund*, another of the contingency funds which is not reported. Given the size of these funds and their importance in budget management, their usage should be reported more frequently.

Indication of importance for further reform: Taken in total, expenditure available for contingencies are relatively large, at 1½ percent of GDP or 8 percent of spending. While the Philippines arguably has a greater need to provide for contingencies than many other countries given its vulnerability to natural disasters, the average cost of these over the past decade has been 0.2 percent of GDP, with a maximum of 0.4 percent of GDP in 2011, and the Philippines has a range of additional buffers to deal with such emergencies (see principle 3.2.8). Accordingly, consideration could be given to reducing the size of contingencies in the budget.

Priority Recommendation No. 4 in Table 5: See priority recommendation discussed under principle 2.4.2 "Supplementary Budget" (*Publish a detailed quarterly statement on the management of budget execution, including contingency provisions*).

3.2.2. Tax Expenditures: The government regularly discloses and has a policy to control all revenue loss from tax expenditures.		
Assessment: 	Importance for further reform: High	Priority Recommendation: No. 11

Assessment: The government currently regularly publishes data on only one category of tax expenditure: the taxes and customs duties notionally payable by government agencies and GOCCs. These taxes payable are included in the revenue targets but provided for in the annual national government budget as an automatic appropriation. BTR monthly *Cash Operation Reports* include a tax expenditures line for the notional amounts payable, as assessed by BIR and BOC, although no cash payments are actually made. These averaged PHP 33 billion in 2010–12, equivalent to 2 percent of total spending or 0.03 percent of GDP.

Tax expenditures in Philippines are generally embedded in various tax laws, but also in other laws, including those establishing public sector entities. Any decisions to introduce changes to Philippines' tax laws (including tax expenditures) require an amendment to the relevant law and must be accompanied by an estimate of the fiscal impact. However, these are measured only at the point of introduction and not in succeeding years. In addition, specific circumstances may also result in additional tax exemptions granted; for example, exemptions from taxes and duties were recently granted to various aid organizations after Typhoon Yolanda.

There are a large number of investment tax incentive schemes for which no data is currently published on their estimated fiscal effects. Eighteen investment promotion agencies are authorized to grant tax incentives under 180 separate pieces of legislation, and there is a lack of central control over the design of these incentives and the decisions to grant them. Work has been completed by DOF on estimating the fiscal impacts of all these schemes, based on 2011 data, and it is intended to publish this during 2014 and to update this exercise using 2012 data.

In addition, there are numerous other unreported tax expenditures. Those are departures from the 'normal' benchmark tax system, both in laws beyond the tax statute, and embedded in different tax statutes themselves. Box 4 discusses tax expenditure reporting and describes country examples.

Box 4. The Definition and Reporting of Tax Expenditures

A good working definition of tax expenditures is that of the *International Public Sector Accounting Standards Board*, which defines them as 'preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.' (IPSAS 23, 2006: Cl. 7 p. 5).

Tax expenditures are intended to encourage or support a specific type of activity. For that reason, they need to be viewed as substitutes for alternative means of achieving such policy objectives, such as direct government spending (subsidies, government provision), regulations, or government ownership.

Examples of tax expenditures include tax incentives or tax-based support for investment, research and development, saving, energy conservation, environmental protection, home ownership, or to supplement the incomes of or housing, education or health care affordability for individuals or households on low incomes.

The *precise* definition of tax expenditures is, however, a matter of considerable technical complexity. It requires the specification of a 'normal' or 'benchmark' tax system, departures from which constitute a tax expenditure. This can lead to considerable debate over whether a specific provision in the tax law constitutes a tax expenditure or not.


In principle, tax expenditures can apply to any type of tax, such as corporate or personal income tax, consumption taxes, customs duties, capital gains taxes, wealth taxes, land taxes, transaction taxes, petrol taxes, and taxes on alcohol or tobacco. Tax expenditures are generally classified by the type of tax to which they apply.

Out of 94 countries covered in the 2010 Open Budget Survey, 36 were assessed as publishing some information on tax expenditures. However, the OBI does not include many OECD countries, most of which now report tax expenditures. South Africa introduced a tax expenditure report for the first time in 2011.

Indication of importance for further reform: It is essential for the authorities to significantly improve their monitoring and disclosure of tax expenditures. They would also need to indicate clearly that reports of tax expenditures confined to the current scope (government agencies and GOCCs) report only a sub-set of tax expenditures. This is vital for macro-fiscal control—including in light of the Philippines' relatively low tax-to-GDP ratio—policy effectiveness, and accountability. Furthermore, decisions to introduce or retain tax expenditures must be subjected to systematic scrutiny, regular public reporting, and periodic review in similar manner to that applied to ordinary budgeted expenditures. Tax expenditure should also be reported on in the FRS.

Priority recommendation No. 11 in Table 5: Estimate and disclose the impacts of the largest tax expenditures, including income and consumption tax exemptions. The DOF should report as

soon as possible the estimated fiscal impacts of all investment tax incentive schemes. It should also commence work estimating the fiscal impacts of all tax expenditures, focusing on the largest tax expenditures initially, and progressively widening the scope, coverage, and quality of an annual tax expenditure report (which should be submitted as part of the annual budget documentation). Central control should be introduced over the design of investment tax incentives and decisions to grant them, in line with practices in other countries in the region, and existing investment tax incentive schemes should be reviewed.

3.2.3. Asset and Liability Management: Risks relating to major assets and liabilities are disclosed and managed.		
Assessment: 	Importance for further reform: Medium	Priority Recommendation: —

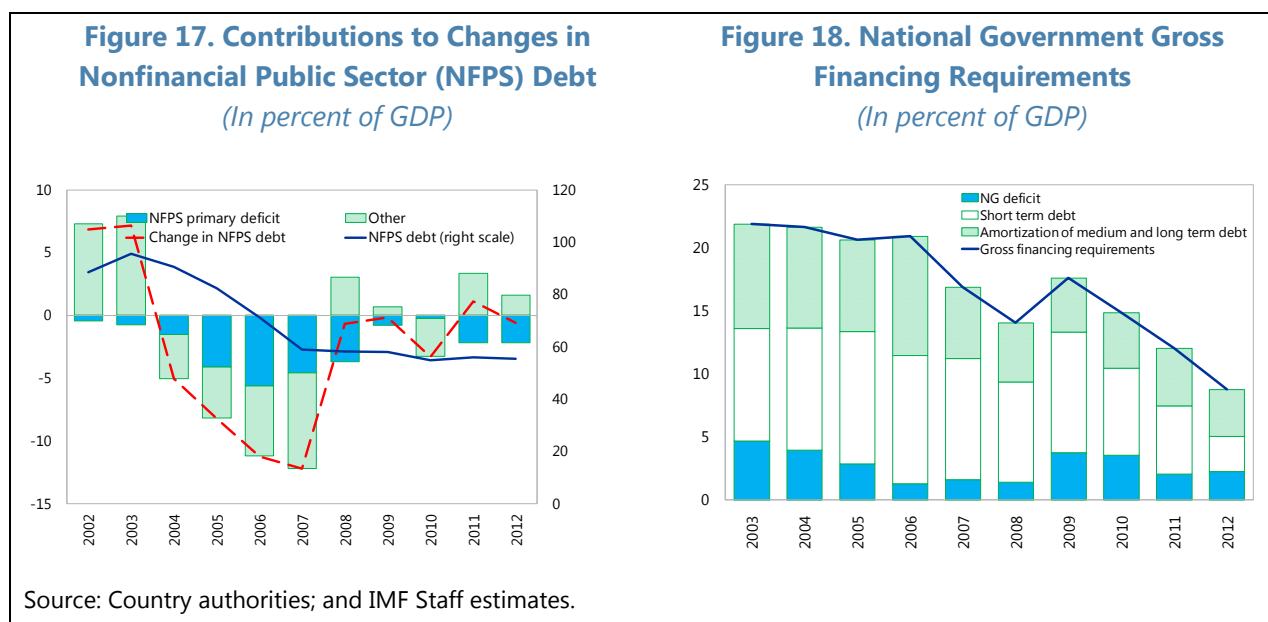
Assessment: All borrowing is authorized by law, reporting is transparent, and a debt management strategy is being developed. The financing operations of the previous year are disclosed in the *Treasury Annual Report* and the *DBCC Year-End Report on the National Budget*. Guided by the medium-term fiscal objectives, the authorities' debt strategy has focused on reducing the share of foreign-denominated debt and extending the debt maturity. Currently, the general government has no derivative position recorded in its balance sheet.⁷ In addition, the Treasury, with the assistance of the World Bank, is preparing a forward-looking document laying out its debt strategy, which should be published later this year.

On the asset side, fiscal reports do include balance sheets (see principle 1.1.2), but there is no single document analyzing the assets' management strategy and risks surrounding them. Some specific information is provided for the subset of real and financial assets offered for sale, which are advertised on the website of the Privatization and Management Office. The two pension funds (SSS and GSIS) publish annual financial statements with their asset holdings, past investments, and returns. The Treasury does not disclose publically its investment policy in the bond sinking fund.

Indication of importance for further reform: The risks surrounding public liabilities and assets seem moderate. In recent years, the resilience of the public debt profile has markedly improved (Figures 17 and 18). The government has successfully issued medium-term and long-term domestic debt. It has conducted debt swaps to lengthen maturities and since 2010 has issued global peso bonds. As a result, the share of short-term and forex-denominated debt has declined significantly, as well as the gross financing requirements. The risks on real and financial asset prices are also assessed to be low to moderate, according to the 2013 Article IV Consultation report (which was published before the announcement of the Fed's tapering policy).

⁷ Some GOCCs have entered into derivative contracts. The authorities do not maintain a consolidated record of these positions, which are disclosed in the appendix of each GOCC's financial statements.

Priority recommendation: None



3.2.4. Guarantees: The government’s guarantee exposure is regularly disclosed and authorized by law.

Assessment:	Importance for further reform:	Priority Recommendation:
	High	No. 12


Assessment: The FRS offers some information on government guarantees, but this is far from exhaustive. The information provided regards (i) guarantees issued through the Foreign Borrowing Act, which also places a limit on borrowings; and (ii) automatic guarantees that are issued under specific GOCC-governing legislation. However, there are a range of other government guarantees that are not reported on, including:

- The government’s exposure to non-explicitly guaranteed GOCC debt, which it is ultimately responsible for as the owner and controller of the GOCCs;
- The exposure of the government to guarantees issued by the GOCCs to the private sector, such as those issued to private home owners through the Home Guaranty Corporation, Trade Investment Corporation and Small Business Corporation;
- Deposit insurance issued by the PDIC on all deposit balances below PHP 500,000, although this was recognized in previous FRS;
- Guarantees associated with legacy PPP projects, covering default, pricing, volume and force majeure risks; and

- Any guarantees that have been issued by the government to private sector enterprises, such as those provided through privatization or business encouragement schemes.

Indication of importance for further reform: The government has issued 47 percent of GDP of non-central bank guarantees. While the FRS reports on guarantees of about 31 percent of GDP, there is a range of other guarantees on issue that could cause a problem. These include the implicit guarantees to GOCCs and deposit insurance. In addition, through an incomplete survey of GOCC annual reports, the mission discovered an additional 1 percent of GDP worth of guarantees, and there are an unknown number on issue to the private sector that could prove substantial given the large number of legacy issues that have not previously been recorded.

Priority recommendation No. 12 in Table 5: *Survey all agencies and GOCCs on outstanding contractual guarantees, develop a regularly updated guarantee (or broader contingent liability) register, and include findings in the FRS.* Issuance of guarantees should be considered within the budget process, within a ceiling covering domestic and foreign currency guarantees.

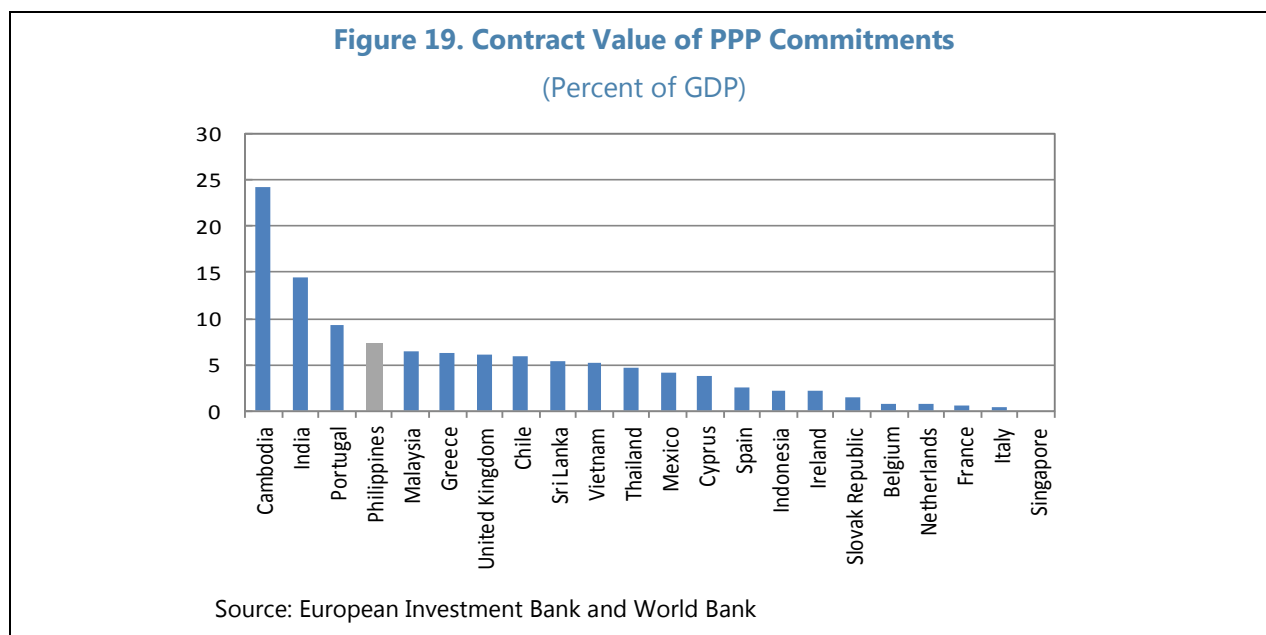
3.2.5. Public Private Partnerships: Obligations under public-private partnerships are regularly disclosed and actively managed.		
Assessment: 	Importance for further reform: Medium	Priority Recommendation: No. 6

Assessment: The government provides a basic level of reporting on its PPP program in the budget documentation and FRS. These documents offer information on all PPP contracts that are in place—both mature and under construction—as well as the pipeline of projects that are under consideration. While the total contract value, contractor, and nature of the project (such as Build, Operate, Transfer) is shown, there is relatively little information on contractual obligations (such as the obligated annual receipts and payments over the life of the contract) and how much of this is to be borne by the taxpayer versus the consumers of the project. There is some discussion of the nature and management of contingent liabilities stemming from the PPPs in general within the FRS, though discussions with authorities indicated that this is more related to new projects and that there was little understanding of either the obligations or risks associated with legacy projects. All PPP contracts signed after 2010 are made public, but the government does not provide a public summary of them. Contracts preceding 2010 are bound by confidentiality clauses that impede not only public access but also access within the administration.

Indication of importance for further reform: With a combined nominal contract value of 7 percent of GDP, the Philippines has one of the largest PPP programs among emerging and advanced countries (Figure 19). This runs against the general perception that PPPs are relatively small, which is more of a reflection of the small number of projects being approved over recent years. The authorities are rightly focused on ensuring that new projects are developed appropriately, with prudent levels of risk borne by the state. However, this ignores the potentially very large risks and obligations stemming from legacy projects, which could emerge from contractually obliged

payments that are not properly considered within the MTBF, as well as the usual contingent liabilities, such as default, pricing, volume and regulatory risks that are built into existing contracts.

Priority recommendation No. 6 in Table 5: Allocate responsibility and resources within the DOF to bring together a central store of information on PPPs (both new and legacy). The information would need to include annual receipts and payment obligations, as well as other contingent liabilities. Once collated, a summary of this information should be included either in the FRS or in a stand-alone summary report on PPPs.



3.2.6. Financial Sector Exposure: The government's potential fiscal exposure to the financial sector is analyzed, disclosed and managed.

Assessment:	Importance for further reform:	Priority Recommendation:
 Good	Low	—

Assessment: While there is no single document assessing the overall government exposure to the financial sector, an extensive body of information is available on the types and amounts of public support and exposure. First, the FRS has a dedicated section on the risks from the banking sector. It provides a short description of the Philippine Deposit Insurance Corporation (PDIC); and shows the size of government deposits in commercial banks and the amount of guarantees provided to government-owned banks. Second, the PDIC annual report, available on its website, analyzes the developments in the banking system (including the name and number of closed banks and the amounts paid to insured depositors), describes its operations and financial situation, and discloses the amount of reserves, as well as their targeted level. The financial

statements at the end of the report unveil the explicit contingent liability that insured deposits represent for the public sector.

None of these documents analyze the *implicit* contingent liabilities of the state. However, the BSP's reports and financial statistics give a glimpse of the potential risks for the government. In particular, the *Status Report on the Philippine Financial System* describes the developments in the sector, provides a detailed assessment of financial stability, and reviews the most recent macro-prudential measures. The report includes a statistical appendix with aggregated income statements, balance sheets, and financial soundness indicators, which quantify the overall size and health of the financial sector—two key determinants of the government's implicit contingent liability.

Indication of importance for further reform: The *explicit* exposure of the government to the financial sector appears limited. According to the most recent IMF/World Bank Financial Sector Assessment Program (FSAP) report published in April 2010, the PDIC reserves—today equivalent to slightly above 5 percent of insured deposits—are sufficient to meet regular deposit insurance claims without government intervention, provided that bank failures are non-systemic. Another form of explicit exposure originates from the large amount of government deposits in commercial banks, which amounted to 6 percent of GDP at end-June 2012 (according to the FRS). However, most of these deposits are kept in government-owned banks. In addition, banks are required to maintain a 50 percent liquidity floor on government deposits in the form of transferable government securities.

Table 12. Core Set of Financial Soundness Indicators
(In percent)

	Philippines		EMs and LICs
	2009	2013, Q3	Latest data available Simple average
Regulatory Capital to Risk-Weighted Assets	15.4	18.5	17.4
Regulatory Tier 1 Capital to Risk-Weighted Assets	11.8	15.5	15.3
Non-performing Loans Net of Provisions to Capital	5.7	2.7	11.8
Non-performing Loans to Total Gross Loans	3.5	3.0	6.8
Return on Assets	1.4	2.2	1.5
Return on Equity	15.4	20.0	13.6
Interest Margin to Gross Income	65.3	54.2	59.3
Non-interest Expenses to Gross Income	63.4	51.9	53.0
Liquid Assets to Total Assets (Liquid Asset Ratio)	33.9	40.0	28.5
Liquid Assets to Short Term Liabilities	51.9	67.4	60.9
Net Open Position in Foreign Exchange to Capital	5.2	7.0	12.7

Source: IMF Financial Soundness Indicators.

The fiscal risks associated with *implicit* exposures are also contained, given that the financial sector is sound and of moderate size. Most financial soundness indicators compare favorably to other EMs and LICs (Table 12 and Figure 20). The 2010 FSAP concluded that the banking sector was resilient, well-capitalized, and liquid, with a high asset quality, and stress tests showed that banks

were resilient to shocks. Since 2010, financial stability has continued to strengthen, with, in particular, a large decline in the non-performing loan ratio. The 2013 Article IV Consultation nonetheless identified some vulnerabilities: the banking sector is particularly exposed to real estate, while loan concentration is also high. In addition, tensions have recently risen on emerging market bond and equity markets in the wake of the Federal Reserve's tapering policy. Box 5 emphasizes that the government's explicit and implicit exposure to the financial sector is relatively contained.

Box 5. Measuring Government Exposure to the Financial Sector

Measuring the explicit and implicit exposures of the government to the financial sector is a difficult and imprecise exercise, partly dependent on the definitions and methods used to compute the estimates. This exercise is nonetheless useful to get a sense of the risks borne by the taxpayers:

- The *explicit* exposure of the government can be defined as the maximum loss that the government would incur if a systemic financial crisis resulted in the full depletion of bank assets and the failure of all banks, included government-owned ones. The purpose of this extreme (and unrealistic) scenario is to define a ceiling for the support provided by the state to the financial sector. Assuming that the government takes over from the PDIC to insure depositors and that all government claims on banks are wiped out, the maximum loss can be proxied by the sum of three components: (i) the amount of deposits insured by the PDIC (net of PDIC reserves and excluding government insured deposits); (ii) the amount of government deposits in banks; and (iii) the equity in government owned banks. This method gives a ballpark estimate of 20 percent of GDP.¹

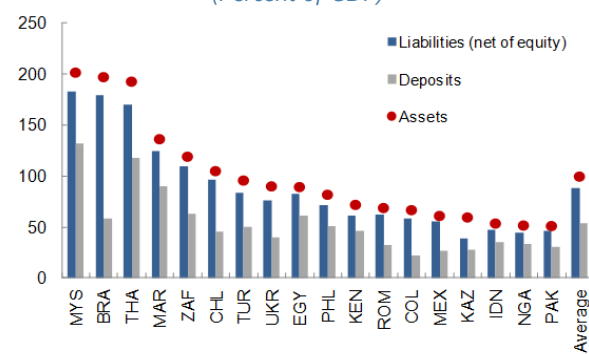
- *Implicit* contingent liabilities are more difficult to evaluate. The total amount of bank liabilities (excluding equity) provides a first metric of the overall risk for the government (Figure 20).

However, this does not take into account the default probabilities of individual banks and the possibility of recovering bank assets. More sophisticated measures are discussed in the IMF April 2014 *Global Financial Stability Report*. In particular, a probabilistic approach using CDS spread data, called the Contingent Claim Analysis, suggests that implicit government guarantees to the Philippine banking sector are currently below the average of emerging market countries (see results in the IMF April 2014 *Fiscal Monitor*).

¹ This calculation assumes that insured deposits account for 25 percent of total deposits; total (resp. government) deposits represent 60 (resp. 6) percent of GDP; the PDIC has 1 percent of GDP in reserves; and the government banks' equity also amounts to 1 percent of GDP. This gives: $0.25 \times (60 - 6) - 1 + 6 + 1 \approx 20$.

Figure. Other Depository Corporations: Assets, Net Liabilities, and Deposits

(Percent of GDP)



Source: International Financial Statistics.

Priority recommendation: None

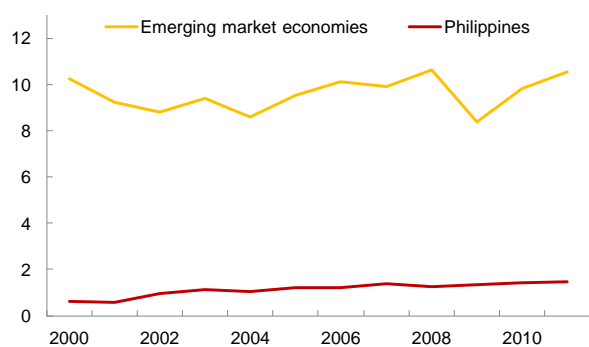
3.2.7. Natural Resources: The value of the government’s interest in exhaustible natural resource assets and their exploitation is analyzed, disclosed and managed.

<p>Assessment:</p> 	<p>Importance for further reform:</p> <p style="font-size: 24pt; color: blue; text-align: center;">Low</p>	<p>Priority Recommendation:</p> <p style="text-align: center;">—</p>
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Assessment: In their national accounts, the authorities publish annual data on the production of the mining and quarrying sector. They also publish revenues from mining (actual and forecasts) in the BESF, including royalties, specific taxes, and earmarked revenues. The Mines and Geosciences Bureau maintains a record of mineral resources for the deposits currently exploited, based on information received from the mining companies. The annual inventory is not public, but the 2006 evaluation is disclosed in the *Compendium of Basic Environment and Natural Resources Statistics for Operation and Management (2000-2008)* available on the website of the Department of Environment and Natural Resources. Stocks are presented in volume for each type of mineral. Nominal amounts are not calculated. There is no estimate of unexploited deposits.

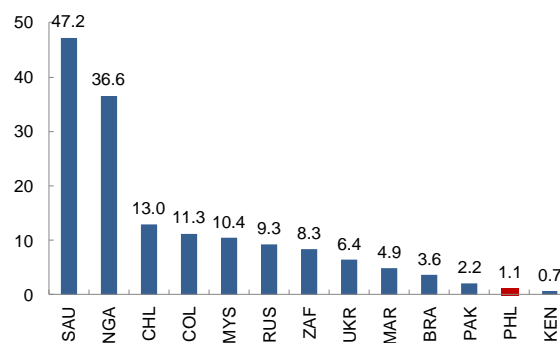
Indication of importance for further reform: At about 1 percent of GDP, the size of the mining and quarrying sector is currently relatively small compared to other emerging markets (Figures 20 and 21). By contrast, the potential stock of natural resources is very large. According to the Mines and Geosciences Bureau, about one-third of the total land area of the Philippines is identified as potential sites for mineral deposits, although only a fraction is currently exploitable.

Figure 20. Mining and Quarrying: Philippines and Emerging Market Economies
(Percent of GDP)



Source: UNdata; National Accounts.

Figure 21. Mining and Quarrying in Selected Emerging Market Economies
(Percent of GDP; 2011)



Priority recommendation: None

3.2.8. Environmental Risks: The potential fiscal exposure to natural disasters and other major environmental risks are analyzed, disclosed, and managed.

Assessment:	Importance for further reform:	Priority Recommendation:
	<p>Low</p>	<p>—</p>

Assessment: The Philippines has one of the more highly developed analyses of environmental risk in the budget, reflecting the large vulnerabilities the archipelago has to a variety of natural disasters. The FRS goes into considerable detail about the incidence of past natural disasters, providing information on the average economic costs over the past decade, as well as the cost and casualties of specific incidents.

Reflecting the large number of incidents that occur, the Philippines has a well-developed and published *National Disaster Risk Reduction and Management Strategy (NDRRMS)*. It encompasses disaster prevention and mitigation; preparedness; response; and rehabilitation and recovery. While initially the funding weighting was spread evenly across the four areas, over recent years this has become increasingly concentrated on prevention and mitigation, which now makes up half of the funding allocation, with the remainder spread evenly among the other areas. The FRS provides a good summary of the plan, and lays out the various steps that are actually being taken to prepare and mitigate against the risk posed.

The strategy is backed up by considerable funding through the budget. Total normal funding (not including the impact of specific major disasters, such as the typhoon Yolanda) includes:

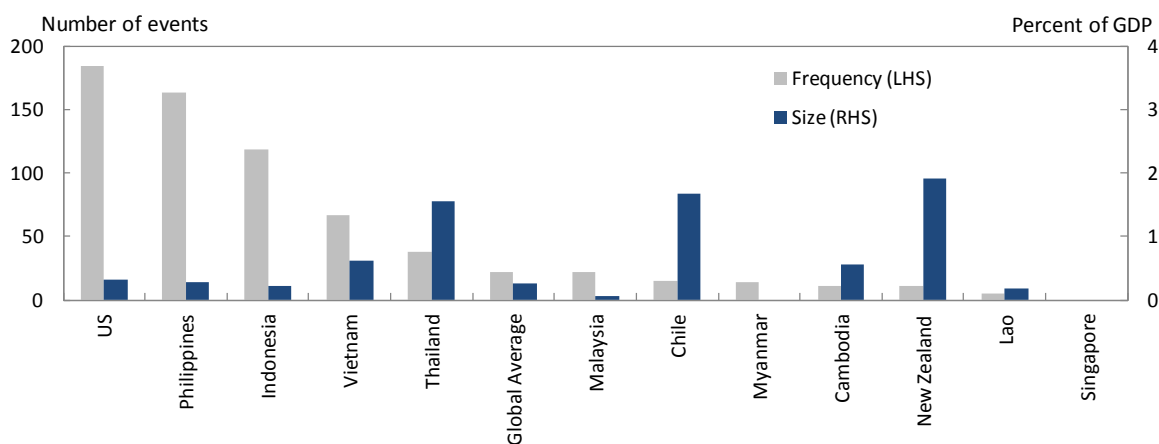
- A requirement that 5-10 percent of all NGAs' budgets are allocated to disaster prevention and mitigation spending, in line with the NDRRMS plans (although this is not confirmed ex post);
- Contingencies within the budget of up to 1½ percent of GDP that can be allocated towards disaster response quickly, without recourse to Congress;
- The ability to both use and channel donor funding and aid in the event of a major calamity, which provides a significant shock absorber to the system. However, managing the inflow of assistance can be challenging, and the government has struggled to keep track of what assistance has been provided, although the recent initiative on the Foreign Aid Transparency Hub (FAITH) represents a step forward in recording and managing aid flows; and

The government is also considering the use of disaster financing. This could possibly include catastrophe bonds and insurance in order to bolster financial resources in the event of a calamity.

Indication of importance for further reform: The Philippines is one of the most vulnerable countries to natural disasters, making this type of analyses and risk management highly important. In recent years, the range of significant disasters have included earthquakes, tropical cyclones, flooding and volcanic eruptions, all of which have resulted in large numbers of casualties and damages. The Philippines ranks third in the world in the number of events, with an average of

163 events per year. However, while the Philippines casualty rate per capita is the tenth highest in the world, economic damages are relatively low, averaging 0.2 percent of GDP a year over the past decade (Figure 22). This has been substantially higher in some years, such as in 2013 when Yolanda hit, but indicates that the contingencies in place are broadly sufficient. That said, most disasters have tended to occur in less economically concentrated areas. Should such an event occur in a major economic centre, such as a major earthquake in Manila, there would likely be considerable additional calls on the budget.

Figure 22. Annual Average Number and Size of Disasters 2000–10



Source: World Bank Risk Report

Priority recommendation: None

C. Fiscal Coordination

3.3. Fiscal Coordination: Fiscal relations across the public sector should be analyzed, disclosed, and coordinated.

3.3.1. Sub-National Governments: Comprehensive information on the fiscal condition of sub-national governments, individually and as a consolidated sector, are collected and published.

Assessment:	Importance for further reform:	Priority Recommendation:
	Low	—



Assessment: COA publishes full information on local government income, balance sheets, and cash flows in the annual financial report. These are presented on both an aggregated and individual basis, and cover all three layers of local government: provinces, municipalities and cities. They are accompanied by a clear and concise summary of the financial position of the sector, as well as the highlights from each entity’s audit findings. There is a quarterly report produced, which,

however, only provides information on the aggregate amount of outstanding bank loans for the sector as a whole.

The local government law places a number of constraints on local government finances, including limits on their overall amount of borrowing and fiscal balances. A local government's appropriations for debt servicing may not exceed 20 percent of its regular income; and the aggregate amount appropriated shall not exceed the estimated income. While the latter should be a balanced budget rule, it is viewed more as operating like a 'golden rule', in that local governments could borrow (run deficits) to finance investment and social spending but not to fund consumption or maintenance expenditures. Overall, these limits appear to be respected, with 92 percent of the local government units running budget surpluses in 2012; debt servicing ratios remaining below 20 percent; and gross debt of 21 percent of operating income.

Indication of importance for further reform: Local governments do not appear to be a significant source of fiscal risk in the Philippines, due to their small size and generally favorable financial position. They represent 14 percent of general government expenditure, at the low end of comparator economies (Figure 23), and local government liabilities were less than 2 percent of GDP. The majority of local government revenues are sourced from grants from the central government, with own source revenues equivalent to 38 percent of total revenues. The majority of local government units maintain a strong financial position. However, some 13 percent of municipalities are running liability-to-income ratios in excess of 100 percent, some worryingly so, with liability-to-revenue ratios of upwards of 400 percent. While this warrants close monitoring, and potentially some intervention, they do not present a macro-critical fiscal risk, given their small size, both individually and collectively (Figure 24).

Priority Recommendation: None

3.3.2. Public Corporations: The government oversees and regularly publishes comprehensive information on the financial performance of public corporations, including any quasi-fiscal activity undertaken by them.		
Assessment: 	Importance for further reform: Low	Priority Recommendation: 

Assessment: The government publishes high-quality information on the financial accounts of public corporations and the direct transfers they receive from the government. The annual budget includes a table detailing all of the subsidies, equity injections and net lending to GOCCs over the past two years, and as proposed under the budget. The annual financial statements produced by COA provide a dedicated report on the sector, with financial information on the overall financial performance of: (i) the sector on an aggregated basis, (ii) each cluster (or subsector, such as banking, public utilities and social security and housing); and (iii) each entity. These can be further investigated in their individual audited annual reports that are collated and available on the COA website. The major indirect transfer to GOCCs of tax-free status is also provided within the budget

documentation and annual reports. This arrangement sees a range of public corporations, such as the PDIC, being provided with a full refund of all taxes paid.

There is a qualitative discussion of the main quasi-fiscal activities in the FRS, laying out the issue of GOCCs being required to perform functions in support of social objectives. A number of examples are given, such as the operations of the *National Food Authority*, which is required to purchase rice at a high price, hold it for a long period, and sell it at low prices, resulting in an unprofitable position. Other examples stem from the transport sector where tariff rates are held low for policy purposes; and in the power sector where a GOCC has been set up to absorb loss-making assets and high levels of debt, requiring government support to allow it to continue to operate.

Indication of importance for further reform: The public corporation sector is small in the Philippines relative to comparator countries, with total debt (excluding the central bank) of 14 percent of GDP in 2012 (Figure 25). Further, over the past two years, the overall sector has operated on a profitable basis before subsidies are taken into account, and comprehensive income (including taxes and subsidies) is around 1 percent of GDP. On an individual basis, the gross liability positions appear largely manageable and well monitored (Figure 27). One area of vulnerability comes from the large amount of quasi-fiscal activities, which taken together (including subsidies, equity injections, net lending and tax subsidies) represent about one-fifth of the sector's income.

Priority recommendation: None

Figure 23. Subnational Government Expenditure, 2012

(Percent of general government expenditure)

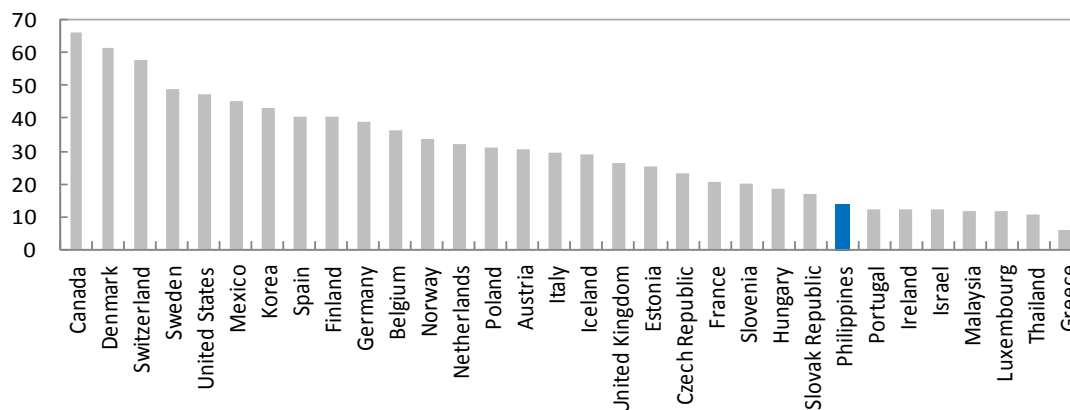


Figure 24. Subnational Gross Liabilities

(Percent of income)

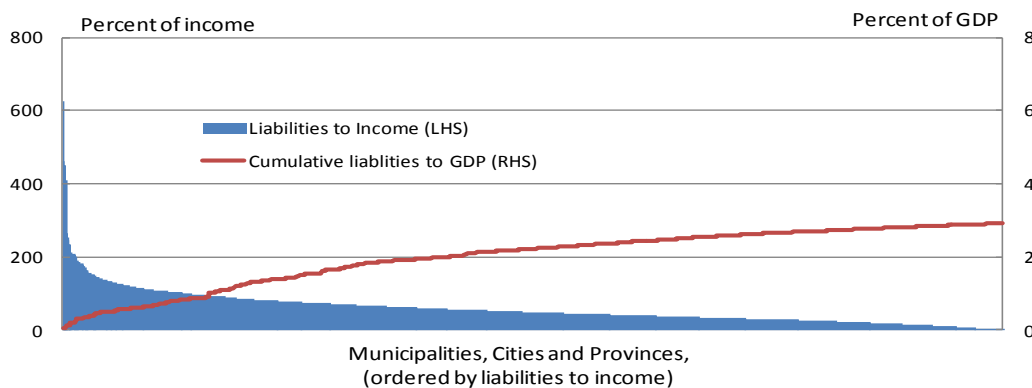


Figure 25. Public Corporation Debt, 2012

(Percent of GDP)

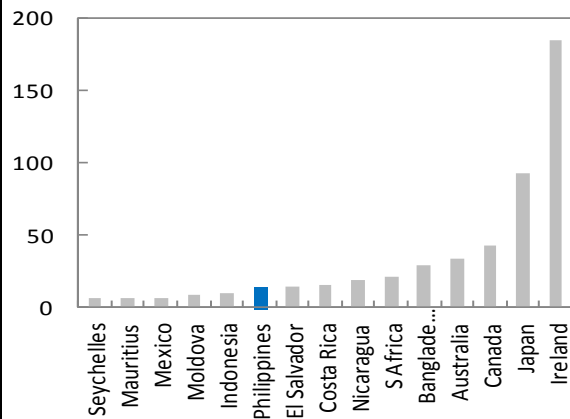
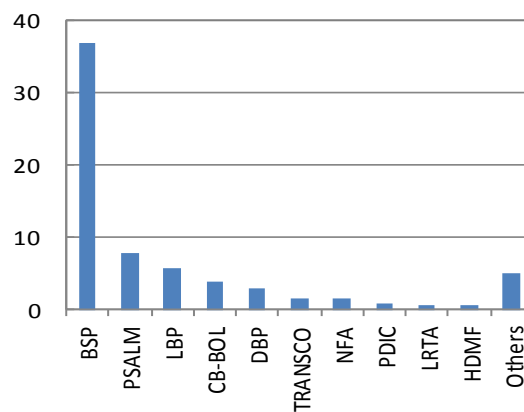


Figure 26. Liabilities of the Largest Corporations

(Percent of GDP)








































Source: OECD, CoA, World Bank, Staff Estimates

Annex IV. The Draft Fiscal Transparency Code

The assessment of fiscal transparency was undertaken on the basis of a preliminary version of the Fiscal Transparency Code (FTC) of January 24, 2014, which is provided in this annex. The final FTC, based on experience gained under this and six other pilot Fiscal Transparency Evaluations and consultations with stakeholders, will be published on the IMF's external website by June 2014.

This annex also reproduces the heat map on Philippines fiscal transparency practices (see Table 1 above) following the structure of each pillar of the FTC so as to ensure comparability across FTE reports. The restructured heat map looks as follows:

Table 13. Heat Map on Fiscal Transparency Based on Structure of Fiscal Transparency Code

Pillar I: Fiscal Reporting		Pillar II: Fiscal Forecasting and Budgeting		Pillar III: Fiscal Risk Analysis and Management	
	Coverage of Institutions		Budget Unity		Macroeconomic Risks
	Coverage of Stocks		Macroeconomic Forecasts		Specific Fiscal Risks
	Coverage of Flows		Medium-term Budget Framework		Long-term Fiscal Sustainability Analysis
	Frequency of In-Year Reporting		Investment Projects		Budgetary Contingencies
	Timeliness of Annual Fin'l Statements		Fiscal Legislation		Tax Expenditures
	Classification		Timeliness of Budget Documents		Asset and Liability Management
	Internal Consistency		Fiscal Policy Objectives		Guarantees
	Historical Consistency		Performance Orientation		Public-Private Partnerships
	Statistical Integrity		Public Participation		Financial Sector Exposure
	Audit of Annual Fin'l Statements		Independent Evaluation		Natural Resources
	Comparability of Fiscal Data		Supplementary Budget		Environmental Risks
			Forecast Reconciliation		Subnational Governments
					Public Corporations

Source: IMF Staff.

Fiscal Transparency Code (Version of January 24, 2014)

I. FISCAL REPORTING:

Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance

1.1. Coverage: *Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector, according to international standards.*

1.1.1. Coverage of Institutions: Fiscal reports cover all entities engaged in public activity according to international standards.

1.1.2. Coverage of Stocks: Fiscal reports include a balance sheet of public assets, liabilities, and net worth.

1.1.3. Coverage of Flows: Fiscal reports cover all public revenues, expenditures, and financing.

1.2. Frequency and Timeliness: *Fiscal reports should be published in a frequent, regular and timely manner.*

1.2.1. Frequency of In-Year Reporting: In-year fiscal reports and statistics are published on a frequent and regular basis.

1.2.2. Timeliness of Annual Financial Statements: Audited or final annual financial statements are published in a timely manner.

1.3. Quality: *Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent.*

1.3.1. Classification: Fiscal reports classify information in ways that make clear the use of public resources and facilitates international comparisons.

1.3.2. Internal Consistency: Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.

1.3.3. Historical Consistency: Material revisions to historical fiscal statistics are disclosed and explained.

1.4. Integrity: *Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.*

1.4.1. Statistical Integrity: Responsibility for verifying fiscal statistics is vested in a specific body that is independent.

1.4.2. External Audit: Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.

1.4.3. Comparability of Fiscal Data: Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.

II. FISCAL FORECASTING AND BUDGETING:

Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions and comprehensive, timely, and credible projections of the evolution of the public finances

2.1. Comprehensiveness: *Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects.*

2.1.1. Budget Unity: Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature.

2.1.2. Macroeconomic Forecasts: The budget projections are based on comprehensive macroeconomic forecasts which are disclosed and explained.

2.1.3. Medium-term Budget Framework: Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium-term on the same basis as the annual budget.

2.1.4. Investment Projects: The government regularly discloses its financial commitments under multi-annual investment projects and subjects all major projects to cost-benefit analysis and open and competitive tender.

2.2. Orderliness: *The fiscal powers of the executive, legislative, and judicial branches of government should be defined in law, and the government budget should be presented, debated and approved in a timely manner.*

2.2.1. Fiscal Legislation: The legal framework clearly defines the government's responsibilities, decision-making processes, and reporting obligations with respect to collection and use of public resources.

2.2.2. Timeliness of Budget Documents: The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget and related forecasts.

2.3. Policy Orientation: *Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.*

2.3.1. Fiscal Policy Objectives: The government states and reports on clear and measurable objectives for the public finances.

2.3.2. Performance Information: Budget documentation provides information regarding the objectives and results achieved under each major government policy area.

2.3.3. Public Participation: The government provides citizens an accessible summary of the implications of budget policies and an opportunity to participate in budget decisions.

2.4. Credibility: *Economic and fiscal forecasts and budgets should be credible.*

2.4.1. Independent Evaluation: The government's economic and fiscal forecasts and performance are subject to independent evaluation.

2.4.2. Supplementary Budget: Any material changes to the approved budget are authorized by the legislature.

2.4.3. Forecast Reconciliation: Budget documentation and any subsequent updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures.

III. FISCAL RISK ANALYSIS AND MANAGEMENT:

Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector

3.1. Risk Disclosure and Analysis: *Governments should publish regular summary reports on risks to their fiscal prospects.*

3.1.1. Macroeconomic Risks: The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic shocks.

3.1.2. Specific Fiscal Risks: The government provides a regular summary report on the main specific risks to its fiscal forecasts.

3.1.3. Long-Term Fiscal Sustainability Analysis: The government regularly publishes projections of the evolution of the public finances over the long-term.

3.2. Risk Management: *Specific risks to the public finances should be regularly monitored, disclosed, and managed.*

3.2.1. Budgetary Contingencies: The budget has adequate and transparent provision for contingencies that arise during budget execution.

3.2.2. Tax Expenditures: The government regularly discloses and has a policy to control all revenue loss from tax expenditure.

3.2.3. Asset and Liability Management: Risks relating to major assets and liabilities are disclosed and managed.

3.2.4. Guarantees: The government's guarantee exposure is regularly disclosed and authorized by law.

3.2.5. Public Private Partnerships: Obligations under public-private partnerships are regularly disclosed and actively managed.

3.2.6. Financial Sector Exposure: The government's potential fiscal exposure to the financial sector is analyzed, disclosed and managed.

3.2.7. Natural Resources: The value of the government's interest in exhaustible natural resource assets and their exploitation is analyzed, disclosed and managed.

3.2.8. Environmental Risks: The potential fiscal exposure to natural disasters and other major environmental risks are analyzed, disclosed, and managed.

3.3. Fiscal Coordination: *Fiscal relations across the public sector should be analyzed, disclosed, and coordinated.*

3.3.1. Subnational Governments: Comprehensive information on the fiscal condition of sub-national governments, individually and as a consolidated sector, are collected and published.

3.3.2. Public Corporations: The government oversees and regularly publishes comprehensive information on the financial performance of public corporations, including any quasi fiscal activity undertaken by them.

DESCRIPTION OF BASIC, GOOD, AND ADVANCED PRACTICES BY PRINCIPLE

#	DIMENSION	PRINCIPLE	PRACTICES		
			BASIC	GOOD	ADVANCED
1	FISCAL REPORTING	Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance			
1.1	Coverage	<i>Fiscal reports should provide a comprehensive overview of the fiscal activities of the public sector, according to international standards.</i>			
1.1.1	Coverage of Institutions	Fiscal reports cover all entities engaged in public activity according to international standards.	Fiscal reports consolidate all central government entities according to international standards.	Fiscal reports consolidate all general government entities and report on each subsector according to international standards.	Fiscal reports consolidate all public sector entities and report on each subsector according to international standards.
1.1.2	Coverage of Stocks	Fiscal reports include a balance sheet of public assets, liabilities, and net worth.	Fiscal reports cover cash and all debt.	Fiscal reports cover all financial assets and liabilities.	Fiscal reports cover all financial and non-financial assets and liabilities, and net worth.
1.1.3	Coverage of Flows	Fiscal reports cover all public revenues, expenditures, and financing.	Fiscal reports cover cash revenues, expenditures and financing.	Fiscal reports cover cash flows and accrued revenues and expenses.	Fiscal reports cover cash flows, accrued revenues and expenses, and other economic flows.
1.2	Frequency and Timeliness	<i>Fiscal reports should be published in a frequent, regular, and timely manner.</i>			
1.2.1	Frequency of In-Year Reporting	In-year fiscal reports and statistics are published on a frequent and regular basis.	In-year fiscal reports are published on a quarterly basis, within a quarter.	In-year fiscal reports are published on a quarterly basis, within a month.	In-year fiscal reports are published on a monthly basis, within a month.

1.2.2	Timeliness of Annual Financial Statements	Audited or final annual financial statements are published in a timely manner.	Audited or final annual financial statements are published within 12 months of the end of the financial year.	Audited or final annual financial statements are published within 9 months of the end of the financial year.	Audited or final annual financial statements are published within 6 months of the end of the financial year.
1.3	Quality	<i>Information in fiscal reports should be relevant, internationally comparable, and internally and historically consistent</i>			
1.3.1	Classification	Fiscal reports classify information in ways that make clear the use of public resources and facilitates international comparisons.	Fiscal reports include an administrative and economic classification consistent with international standards.	Fiscal reports include an administrative, economic, and functional classification consistent with international standards.	Fiscal reports include an administrative, economic, functional, and program classification consistent with international standards, where applicable.
1.3.2	Internal Consistency	Fiscal reports are internally consistent and include reconciliations between alternative measures of summary fiscal aggregates.	Fiscal reports include at least one of the following reconciliations: (i)balance and financing, (ii)debt issued and debt holdings, or (iii)financing and the change in the debt stock.	Fiscal reports include at least two of the following reconciliations: (i)balance and financing, (ii)debt issued and debt holdings, or (iii) financing and the change in the debt stock.	Fiscal reports include all three of the following reconciliations: (i)balance and financing, (ii)debt issued and debt holdings, and (iii) financing and the change in the debt stock.

1.3.3	Historical Consistency	Material revisions to historical fiscal statistics are disclosed and explained.	Material revisions to historical fiscal statistics are reported.	Material revisions to historical statistics are reported with a bridging table between the old and new time series.	Material revisions to historical fiscal statistics are reported with a bridging table between the old and new time series and an explanation for each major revision.
1.4	Integrity	<i>Fiscal statistics and financial statements should be reliable, subject to external scrutiny, and facilitate accountability.</i>			
1.4.1	Statistical Integrity	Responsibility for verifying and disseminating fiscal statistics is vested in a specific body that is independent.	Verification and dissemination of fiscal statistics are the responsibility of specific government ministry.	Verification and dissemination of fiscal statistics are the responsibility of an autonomous government agency.	Verification and dissemination of fiscal statistics are the responsibility of a professionally independent body.
1.4.2	External Audit	Annual financial statements are subject to a published audit by an independent supreme audit institution which validates their reliability.	An independent supreme audit institution publishes a report on the reliability of the government's annual financial statements.	An independent supreme audit institution publishes a report on the reliability of the government's annual financial statements with respect to national accounting standards.	An independent supreme audit institution publishes a report as to whether the government's annual financial statements present a true and fair view of its financial position with respect to international accounting standards.
1.4.3	Comparability of Fiscal Data	Fiscal forecasts, budgets, and fiscal reports are presented on a comparable basis, with any deviations explained.	At least one fiscal report is prepared on the same basis as the budget.	Budget and outturn are comparable plus the outturn is reconciled with either the fiscal statistics or final accounts.	Budget and outturn are comparable plus the outturn is reconciled with both fiscal statistics and final accounts.

2	FISCAL FORECASTING AND BUDGETING	Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions and comprehensive, timely, and credible projections of the evolution of the public finances			
2.1	Comprehensiveness	<i>Fiscal forecasts and budgets should provide a comprehensive overview of fiscal prospects</i>			
2.1.1	Budget Unity	Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature.	Budget documentation incorporates all gross domestic tax revenues, expenditures, and financing by central government ministries and agencies.	Budget documentation incorporates all gross domestic tax and non-tax revenues, expenditures, and financing by central government ministries, agencies and extra-budgetary funds.	Budget documentation incorporates all gross domestic and external revenues, expenditures, and financing by central government ministries, agencies, extra-budgetary funds, and social security funds.
2.1.2	Macroeconomic Forecasts	The budget projections are based on comprehensive macroeconomic forecasts, which are disclosed and explained.	The budget documentation includes forecasts of key macroeconomic variables.	The budget documentation includes forecasts of key macroeconomic variables and their underlying assumptions.	The budget documentation includes forecasts and explanations of key macroeconomic variables and their components, as well as their underlying assumptions.
2.1.3	Medium-term Budget Framework	Budget documentation includes outturns and projections of revenues, expenditures, and financing over the medium-term on the same basis as the annual budget.	Budget documentation includes the outturns of the two preceding years and medium-term projections of aggregate revenues, expenditures, and financing.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category.	Budget documentation includes the outturns of the two preceding years and medium-term projections of revenues, expenditures, and financing by economic category and by ministry or program.

2.1.4	Investment Projects	The government regularly discloses its financial commitments under multi-annual investment projects and subjects all major projects to cost-benefit analysis and open and competitive tender.	One of the following applies: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	Two of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; or (iii) requires all major projects to be contracted via open and competitive tender.	All of the following apply: (i) the government regularly discloses the value of its total obligations under multi-annual investment projects; (ii) subjects all major projects to a published cost-benefit analysis before approval; and (iii) requires all major projects to be contracted via open and competitive tender.
2.2	Orderliness	<i>The fiscal powers of the executive, legislative, and judicial branches of government should be defined in law, and the government budget should be presented, debated, and approved in a timely manner.</i>			
2.2.1	Fiscal Legislation	The legal framework clearly defines the government's responsibilities decision-making processes and reporting obligations with respect to collection and use of public resources.	The legal framework defines the government's responsibilities regarding (i) revenue collection (ii) budget preparation and execution and (iii) accounting and audit.	The legal framework defines the government's responsibilities and decision-making process with respect to (i) revenue collection (ii) budget preparation and execution, and (iv) accounting and audit.	The legal framework defines the government's responsibilities, decision-making process, and content of reporting with respect to (i) revenue collection (ii) budget preparation and execution, and (iv) accounting and audit.

2.2.2	Timeliness of Budget Documents	The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget and related forecasts.	The budget is submitted to the legislature and made available to the public at least one month before the start of the financial year and is approved and published up to one month after the beginning of the financial year.	The budget is submitted to the legislature and made available to the public at least two months before the start of the financial year and is approved and published by the start of the financial year.	The budget is submitted to the legislature and made available to the public at least three months before the start of the financial year and is approved and published at least one month before the start of the financial year.
2.3	Policy Orientation	<i>Fiscal forecasts and budgets should be presented in a way that facilitates policy analysis and accountability.</i>			
2.3.1	Fiscal Policy Objectives	The government states and reports on clear and measurable objectives for the public finances.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is either precise or time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound.	The government states and regularly reports on a numerical objective for the main fiscal aggregates which is both precise and time-bound and has been in place for 3 or more years.
2.3.2	Performance Information	Budget documentation provides information regarding the objectives and results achieved under each major government policy area.	Budget documentation includes information on the inputs acquired under each major government policy area.	Budget documentation reports targets for, and performance against, the outputs delivered under each major government policy area.	Budget documentation reports targets for, and performance against the outcomes to be achieved under each major government policy area.

2.3.3	Public Participation	The government provides citizens an accessible summary of the implications of budget policies and an opportunity to participate in budget deliberations.	Government provides an accessible description of recent fiscal performance and economic prospects, as well as a summary of the implications of the budget for a typical citizen.	Government provides an accessible description of recent fiscal performance and economic prospects and a detailed account of the implications of the budget for different demographic groups.	Government provides an accessible description of recent fiscal performance and economic prospects, a detailed account of the implications of the budget for different demographic groups, and provides citizens with a formal voice in budget deliberations.
2.4	Credibility	<i>Economic and fiscal forecasts and budgets should be credible.</i>			
2.4.1	Independent Evaluation	The government's economic and fiscal forecasts and performance are subject to independent evaluation.	Budget documentation includes comparisons between the government's economic and fiscal projections and those of independent forecasters.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts.	An independent entity evaluates the credibility of the government's economic and fiscal forecasts, and its performance against its fiscal objectives.
2.4.2	Supplementary Budget	Any material changes to the approved budget are authorized by the legislature.	A supplementary budget regularizes expenditure exceeding the approved budget.	A supplementary budget is required prior to total expenditure exceeding budgeted amounts.	A supplementary budget is required prior to increasing total expenditure or substantially altering its composition.

2.4.3	Forecast Reconciliation	Budget documentation and any subsequent updates explain any material changes to the government's previous fiscal forecasts, distinguishing the fiscal impact of new policy measures.	Differences between the successive vintages of the government's revenue, expenditure, and financing forecasts are shown at the aggregate level, with a qualitative discussion of the impact of new policies on the forecasts.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the overall effect of new policies and macroeconomic determinants.	Differences between successive vintages of the government's revenue, expenditure, and financing forecasts are broken down into the effects of individual policy changes, macroeconomic determinants, and other factors, such as technical or accounting adjustments.
3	FISCAL RISK ANALYSIS AND MANAGEMENT	Governments should disclose, analyze, and manage risks to the public finances and ensure effective coordination of fiscal decision-making across the public sector			
3.1	<i>Risk Disclosure and Analysis</i>	<i>Governments should publish regular summary reports on risks to their fiscal prospects.</i>			
3.1.1	Macroeconomic Risks	The government reports on how fiscal outcomes might differ from baseline forecasts as a result of different macroeconomic assumptions.	Budget documentation includes discussion of the sensitivity of fiscal forecasts to major macroeconomic assumptions.	Budget documentation includes sensitivity analysis and alternative macroeconomic and fiscal forecast scenarios.	Budget documentation includes sensitivity analysis, alternative scenarios, and probabilistic forecasts of fiscal outcomes.
3.1.2	Specific Fiscal Risks	The government provides a regular summary report on the main specific risks to its fiscal forecasts.	The main specific risks to the fiscal forecast are disclosed in a summary report and discussed in qualitative terms.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude.	The main specific risks to the fiscal forecast are disclosed in a summary report, along with estimates of their magnitude and, where practicable, their likelihood.

3.1.3	Long-Term Fiscal Sustainability Analysis	The government regularly publishes projections of the evolution of the public finances over the long-term.	The government regularly publishes projections of the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 10 years.	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic assumptions	The government regularly publishes multiple scenarios for the sustainability of the main fiscal aggregates and any health and social security funds over at least the next 30 years using a range of macroeconomic, demographic, natural resource, or other assumptions.
3.2	Risk Management	Specific risks to the public finances should be regularly monitored, disclosed, and managed.			
3.2.1	Budgetary Contingencies	The budget has adequate and transparent provision for contingencies that arise during budget execution.	The budget includes a provision for contingencies.	The budget includes a provision for contingencies with transparent access criteria.	The budget includes a provision for contingencies with transparent access criteria and regular in-year reporting on its utilization.
3.2.2	Tax Expenditures	The government regularly discloses and has a policy to control all revenue loss from tax expenditure.	The estimated revenue loss from tax expenditures is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually.	The estimated revenue loss from tax expenditures is estimated by sector or policy area, and is published at least annually. There is control on, or budgetary objectives for, the size of tax expenditures.
3.2.3	Asset and Liability Management	Risks relating to major assets and liabilities are disclosed and managed.	All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed.	All borrowing is authorized by law and the risks surrounding the government's assets and liabilities are analyzed and disclosed.	All liabilities and significant asset acquisitions or disposals are authorized by law, and the risks surrounding the balance sheet are disclosed and managed according to a published strategy.

3.2.4	Guarantees	The government guarantee exposure is regularly disclosed and authorized by law.	All government guarantees, their beneficiaries, and the gross exposure created by them, are published at least annually.	All government guarantees, their beneficiaries, and the gross exposure created by them are published at least annually. The maximum value of new guarantees or their stock is authorized by law.	All government guarantees, their beneficiaries, the gross exposure created by them, and the probability of their being called are published at least annually. The maximum value of new guarantees or their stock is authorized by law.
3.2.5	Public Private Partnerships	Obligations under public-private partnerships are regularly disclosed and actively managed.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts.	The government at least annually publishes its total rights, obligations, and other exposures under public-private partnership contracts and the expected annual receipts and payments over the life of the contracts. A legal limit is also placed on accumulated obligations.
3.2.6	Financial Sector Exposure	The government's potential fiscal exposure to the financial sector is analyzed, disclosed and managed.	Explicit government support to the financial sector, such as deposit insurance, is quantified and disclosed annually.	The government's explicit support and potential exposure to the financial sector is disclosed at least annually.	The government's explicit support and potential exposure to the financial sector is informed by a quantified assessment of financial sector stability, and disclosed at least annually along with a risk management strategy.

3.2.7	Natural Resources	The value of the government's interest in exhaustible natural resource assets and their exploitation is analyzed, disclosed and managed.	The government publishes annual estimates of the volume and value of major natural resource assets, as well as the volume and value of the previous year's sales and fiscal revenue.	The government publishes annual estimates of the volume and value of major natural resources assets under different price scenarios, as well as the volume and value of the previous year's sales and fiscal revenue.	The government publishes annual estimates of the volume and value of major natural resource assets under different price and extraction scenarios, as well as the volume and value of the previous year's sales.
3.2.8	Environmental Risks	The potential fiscal exposure to natural disasters and other major environmental risks are analyzed, disclosed, and managed.	The budget identifies and discusses the main fiscal risks from natural disasters in qualitative terms.	The budget identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences.	The budget identifies and discusses the main fiscal risks from natural disasters, quantifying them on the basis of historical experiences, and managing them according to a published strategy.
3.3	<i>Fiscal Coordination</i>	<i>Fiscal relations across the public sector should be analyzed, disclosed, and coordinated</i>			
3.3.1	Sub-National Governments	Comprehensive information on the fiscal condition of sub-national governments, individually and as a consolidated sector, are collected and published.	The fiscal condition of sub-national governments is published annually.	The fiscal condition of sub-national governments is published annually, and there is a limit on their liabilities or borrowing.	The fiscal condition of sub-national governments is published quarterly, and there is a limit on their liabilities or borrowing.

3.3.2	Public Corporations	The government oversees and regularly publishes comprehensive information on the financial performance of public corporations, including any quasi fiscal activity undertaken by them.	All direct transfers between the government and public corporations are disclosed on at least an annual basis.	All direct transfers and indirect support between the government and public corporations are disclosed on at least an annual basis, with a qualitative discussion of quasi fiscal activities undertaken by them.	All direct and indirect support between the government and public corporations are disclosed on an annual basis, and annual report on the overall financial performance of sector is published. There are no quasi fiscal activities by public corporations, or detailed quantitative estimates of their equivalent fiscal impact are disclosed.
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