INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/414

# PHILIPPINES

December 2023

## 2023 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR PHILIPPINES

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with the Philippines, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 27, 2023 consideration of the staff report that concluded the Article IV consultation with the Philippines.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 27, 2023, following discussions that ended on October 3, 2023, with the officials of the Philippines on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on November 9, 2023.
- An **Informational Annex** prepared by the IMF staff.
- A **Staff Statement** updating information on recent developments.
- A **Statement by the Executive Director** for the Philippines.

The document listed below will be separately released.

Selected Issues

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

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

PRESS RELEASE

PR23/449

# IMF Executive Board Concludes 2023 Article IV Consultation with the Philippines

**FOR IMMEDIATE RELEASE**

**Washington, DC – November 27, 2023:** The Executive Board of the International Monetary Fund (IMF) concluded the 2023 Article IV consultation[1] with the Philippines.

The Philippines' growth momentum started to moderate after a strong post-pandemic recovery. Growth moderated from 7.6 percent in 2022 to 4.3 percent in the second quarter of 2023, largely due to external headwinds, fiscal underspending, and normalization of pent-up demand. Headline inflation decelerated to 4.9 percent in October from the peak of 8.7 percent in January but is facing renewed price pressures and the BSP has preemptively raised the policy rate by a further 25bps in October. Core inflation also remains elevated at 5.3 percent in October. The labor market has normalized, driven by the service sector. The current account deficit is narrowing, supported by lower imports of fuel and capital goods and a strong recovery in the service sector. International reserves remain adequate. Domestic financial conditions have tightened due to more stringent credit standards and a weaker exchange rate.

Growth is expected to bottom out in 2023. Real GDP growth is expected to bounce back in the second half of 2023 and reach 6.0 percent in 2024, supported by an acceleration in public investment and improved external demand for the Philippines' exports. The government's infrastructure program, opening up of sectors to greater foreign investment, and private sector participation through PPP modalities will gradually crowd in private investment and help realize a growth potential of about 6–6½ percent over the medium term. Inflation is projected to gradually approach the target in early 2024, though recurrent supply shocks cloud the disinflation trajectory. The current account deficit is expected to continue to narrow in 2024. Risks to the growth outlook are tilted to the downside, mainly stemming from persistently high inflation, globally and locally, and a highly uncertain global economic and geopolitical environment. Upside risks to the inflation outlook include higher commodity prices and potential second-round effects.

## Executive Board Assessment[2]

Executive Directors noted that, after recovering strongly from the pandemic, the Philippine economy has withstood a confluence of shocks. Against this backdrop, Directors commended the authorities for their appropriate policy response and the recent implementation of key structural reforms to stimulate exports, spur foreign investment, and raise growth potential. Noting that risks to the outlook are tilted to the downside, Directors recommended maintaining

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

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

prudent policies to further rein in inflation, preserve fiscal sustainability, and increase financial resilience. Sustaining efforts to address structural challenges is also important.

Directors agreed that monetary policy has been tightened appropriately to anchor inflation expectations. They emphasized the need to maintain a restrictive policy stance until inflation fully returns to target and to remain ready to tighten further should upside risks to inflation materialize. While allowing the exchange rate to continue to absorb shocks remains crucial, temporary foreign exchange interventions under limited circumstances may be considered to ensure orderly market conditions and address risks to price stability. Directors also noted the importance of strengthening coordination between the central bank and the Bureau of the Treasury to further develop the benchmark yield curve.

Directors welcomed that the banking sector is well-capitalized and liquid. Noting potential pockets of vulnerabilities, they agreed that banks' exposure to commercial real estate and leveraged corporates warrants close monitoring. Directors welcomed the recent progress in strengthening financial supervision and regulation and the initiative to revamp the bank resolution framework, and encouraged continued efforts in these areas. They called for further strengthening the AML/CFT framework to exit the FATF grey list.

Directors supported the pace of fiscal consolidation envisaged under the medium-term fiscal framework. At the same time, they recommended adopting additional medium-term tax measures to create more fiscal space for policy priorities and social spending. Directors welcomed the authorities' commitment to reform the military and uniformed personnel's pension system and to improve expenditure efficiency through digitalization.

Directors agreed that sustained efforts to reduce infrastructure and education gaps and to harness the digital economy are needed to reap the benefits of the demographic dividend. They stressed the importance of strengthening governance and improving the ease of doing business. Directors also underscored that creating quality jobs and further enhancing education and social protection programs would help reduce poverty and inequality. They encouraged efforts to build resilience to natural disasters and climate risks, including by prioritizing climate resilient infrastructure.

## Table 1. Philippines: Selected Economic Indicators, 2020–2025

| | 2020 | 2021 | 2022 | 2023 Est. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National account | | | | | | |
| Real GDP | -9.5 | 5.7 | 7.6 | 5.3 | 6.0 | 6.1 |
| Consumption | -5.3 | 4.7 | 7.7 | 4.0 | 5.7 | 6.5 |
| Private | -8.0 | 4.2 | 8.3 | 5.0 | 6.2 | 6.9 |
| Public | 10.5 | 7.2 | 4.9 | -0.4 | 3.0 | 4.3 |
| Gross fixed capital formation | -27.3 | 9.8 | 9.7 | 7.7 | 11.2 | 10.8 |
| Final domestic demand | -10.5 | 5.7 | 8.1 | 4.8 | 6.8 | 7.4 |
| Net exports (contribution to growth) | 4.0 | -2.3 | -2.2 | 0.0 | -1.5 | -1.8 |
| Real GDP per capita | -10.7 | 4.3 | 6.2 | 4.1 | 4.9 | 5.0 |
| Output gap (percent, +=above potential) | -8.5 | -3.5 | 0.4 | 0.0 | 0.1 | 0.1 |
| Labor market | | | | | | |
| Unemployment rate (percent of labor force) | 10.4 | 7.8 | 5.4 | 4.7 | 5.1 | 5.6 |
| Underemployment rate (percent of employed persons) | 16.2 | 15.9 | 14.2 | 12.8 | … | … |
| Employment | -6.1 | 11.7 | 6.6 | 2.4 | 1.6 | 1.6 |
| Price | | | | | | |
| Consumer prices (period average) | 2.4 | 3.9 | 5.8 | 6.0 | 3.7 | 3.0 |
| Consumer prices (end of period) | 3.3 | 3.1 | 8.1 | 4.5 | 3.2 | 3.0 |
| Core consumer prices (period average) | 3.4 | 3.0 | 3.9 | … | … | … |
| Residential real estate (Q4/Q4) | 0.8 | 4.9 | 7.7 | … | … | … |
| Money and credit (end of period) | | | | | | |
| 3-month PHIREF rate (in percent) 1/ | 1.3 | 1.5 | 5.7 | … | … | … |
| Claims on private sector (in percent of GDP) | 52.0 | 49.9 | 48.9 | 47.7 | 48.3 | 48.6 |
| Claims on private sector | -0.2 | 3.8 | 11.0 | 7.7 | 10.6 | 9.7 |
| Monetary base | 5.1 | 5.8 | 5.1 | 6.0 | 6.5 | 8.9 |
| Broad money | 8.7 | 8.0 | 7.8 | 7.6 | 8.9 | 8.2 |
| Public finances (in percent of GDP) | | | | | | |
| National government overall balance 2/ | -7.4 | -8.3 | -7.2 | -5.7 | -5.0 | -4.6 |
| Revenue and grants | 15.9 | 15.5 | 16.1 | 15.7 | 16.4 | 16.7 |
| Total expenditure | 23.4 | 23.8 | 23.3 | 21.4 | 21.4 | 21.3 |
| National government gross debt | 54.6 | 60.4 | 60.9 | 61.1 | 61.1 | 60.9 |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account balance | 3.2 | -1.5 | -4.5 | -3.0 | -2.6 | -2.3 |
| FDI, net | -0.9 | -2.5 | -1.3 | -1.0 | -1.1 | -1.1 |
| Total external debt | 27.2 | 27.0 | 27.5 | 27.5 | 27.1 | 26.5 |
| Gross reserves | | | | | | |
| Gross reserves (US$ billions) | 110.1 | 108.8 | 96.1 | 98.1 | 93.4 | 89.4 |
| Gross reserves (percent of short-term debt, remaining maturity) | 478.4 | 512.3 | 381.3 | 351.0 | 372.3 | 332.0 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 361.8 | 394.1 | 404.3 | 434.9 | 471.8 | 510.3 |
| Nominal GDP per capita (US$) | 3,326 | 3,576 | 3,624 | 3,853 | 4,133 | 4,423 |
| GDP (in billions of pesos) | 17,952 | 19,411 | 22,025 | 24,312 | 26,565 | 28,934 |
| Real effective exchange rate (2010=100) | 111.3 | 111.1 | 109.3 | … | … | … |
| Peso per U.S. dollar (period average) | 49.6 | 49.3 | 54.5 | … | … | … |

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

1/ Benchmark rate for the peso floating leg of a 3-month interest rate swap.
2/ IMF definition with privatization receipts, equity, and net lending excluded.

INTERNATIONAL MONETARY FUND

# PHILIPPINES

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION

November 9, 2023

## KEY ISSUES

**Context**. After a strong recovery from the pandemic in 2022, growth moderated in the first half of 2023 due to external headwinds, fiscal underspending, and normalization of pent-up demand. Inflation decelerated from the peak in early 2023 supported by domestic policy tightening despite a recent uptick related to resurgent commodity prices. Growth is projected to rebound in the second half of 2023 and 2024 while inflation is expected to gradually approach the target. Risks to the growth outlook are tilted to the downside, mainly stemming from persistently high inflation, globally and locally, and a highly uncertain global economic and geopolitical environment. Upside risks to the inflation outlook include higher commodity prices and potential second-round effects.

**Main policy recommendations**. Policy priorities should include anchoring inflation expectations, maintaining debt sustainability, increasing economic and financial resilience to adverse shocks, supporting the investment recovery, and implementing reforms to raise productivity growth and the standard of living for all Filipinos.

- *Monetary policy.* Maintaining a restrictive monetary stance until inflation fully returns to target is appropriate to anchor inflation expectations. The BSP should remain vigilant to surges in commodity prices and potential second-round effects.

- *Financial sector.* The banking system has weathered the high interest rate environment well so far, but banks' exposure to commercial real estate and leveraged corporates warrants close monitoring and supervisory actions. The bank resolution and corporate insolvency framework should be further strengthened. Efforts to make progress on outstanding AML/CFT issues are critical.

- *Fiscal policy.* Fiscal consolidation under the medium-term fiscal framework would ensure debt sustainability and restore fiscal space. Exploring additional avenues for revenue mobilization will create more fiscal space to support policy priorities. Improving expenditure efficiency, curtailing contingent liabilities, and effectively managing the process of decentralization and PPPs would help reduce fiscal risks.

- *Structural policy.* Sustained efforts to reduce infrastructure and education gaps, promote foreign investment, strengthen governance, and harness the digital economy can boost growth potential and inclusivity. These reforms should be complemented by efforts to further strengthen skills and the social safety net while addressing climate risks through a multi-pronged approach.

Approved By
**Sanjaya Panth (APD) and Eugenio Cerutti (SPR)**

Discussions took place in Manila and Davao City during September 21-October 3, 2023. The mission comprised Shanaka J. Peiris (Mission Chief), Nuri Baek, Tristan Hennig, Ragnar Gudmundsson (Resident Representative), Yinqiu Lu (all APD), and Pawel Zabczyk (MCM). Staff in the office of the Resident Representative supported the mission. Yati Kurniati, and Maria Teresa Dueñas (OED), Francisca Fernando (LEG), and Elif Arbatli Saxegaard (incoming Mission Chief, APD) joined some of the meetings. Azar Sultanov (RES) presented the application of the DIGNAD model on the Philippines. Agnes Isnawangsih, and Patricia Tanseco (both APD) contributed to the preparation of this report.

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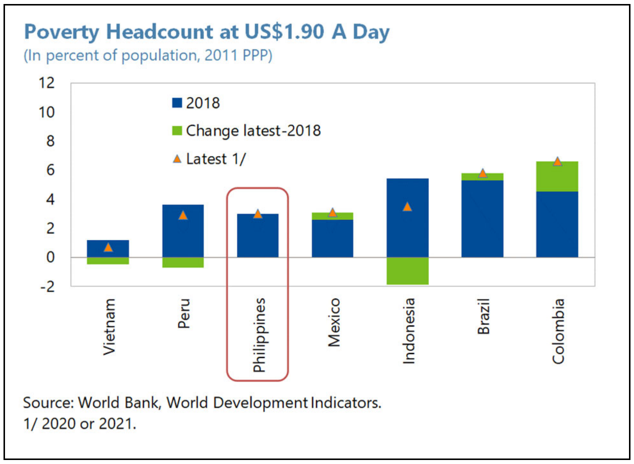
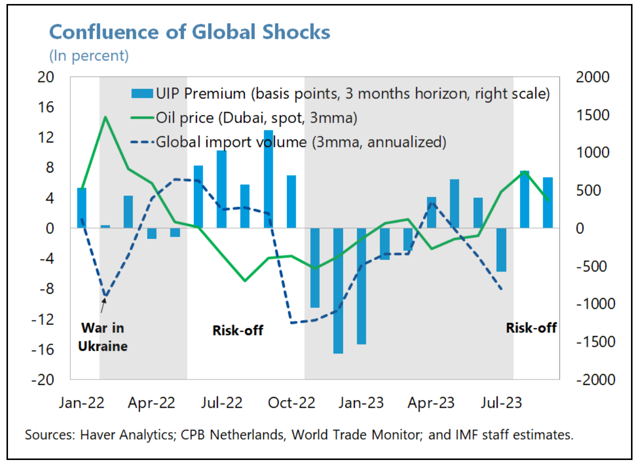
**ANNEXES**

# CONTEXT: POST-PANDEMIC LANDSCAPE

1. **The Philippine economy emerged strongly from the pandemic but has since confronted a confluence of global shocks**. Domestic demand rebounded strongly following the full reopening. Prudent fiscal management prior to the pandemic enabled the authorities to implement a well-targeted fiscal response to support the recovery and contain the increase in poverty. However, the war in Ukraine, monetary policy tightening in advanced economies, heightened volatility in global financial markets in the wake of the global banking turmoil, and terms of trade fluctuations presented substantial external shocks to the economy.




2. **The authorities have handled the COVID exit and subsequent challenges appropriately**. Like in other Asian countries, inflation peaked in early 2023 and has eased since. Monetary policy rates were raised decisively to fight inflation, complemented by fiscal consolidation underpinned by the medium-term fiscal framework (MTFF), adopted by Congress for the first time in 2022. The authorities should also be commended for introducing several targeted support programs to mitigate the impact of elevated food and fuel prices to vulnerable households, as opposed to generalized subsidies. An Inter-Agency Committee on Inflation and Market Outlook (IAC-IMO) was formalized in May 2023, tasked with formulating direct and non-monetary measures to reduce food and energy prices.

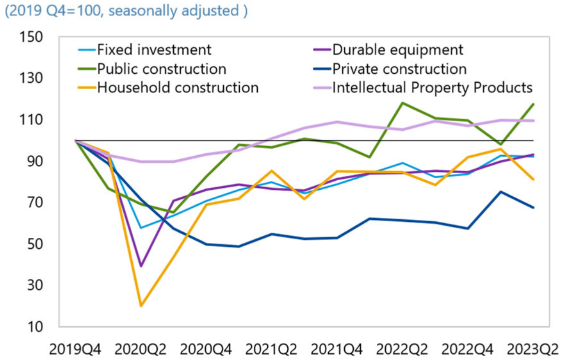
3. **Structural reforms have been geared towards raising long-term growth and the standard of living for all Filipinos**. Under the *Build Better More* program, infrastructure development is a priority of the current administration. The recent passage of the Public-Private Partnerships (PPP) Code will unify the legal framework for PPP projects and institutionalize best practices. Several key reforms have been introduced to stimulate exports, provide stronger minority investor protection, and spur foreign direct investment (FDI), including the ratification of the Regional Comprehensive Economic Partnership Agreement (RCEP), and amendments made to the Retail Trade Liberalization Act, the Foreign Investment Act, the Public Service Act, and the Renewable Energy Act allowing full foreign ownership in the sector.

# RECENT DEVELOPMENTS: POLICY NORMALIZATION TAKES HOLD

4. **The Philippines' growth momentum started to moderate after a strong post-pandemic recovery**. Real GDP growth moderated from 7.6 percent in 2022 to 4.3 percent (y/y) in the second quarter of 2023, largely due to external headwinds, the effect of monetary policy tightening, fiscal underspending, normalization of pent-up demand, and weaknesses in the agri-fisheries sector (Figure 1). Private consumption has remained resilient, supported by favorable labor market dynamics, solid remittances, and personal income tax cuts. On the other hand, weaker external demand and the tech cycle have slowed the growth in electronic exports (over half of total exports), offsetting positive spillovers from China's reopening and booming service exports. Adverse weather also impacted agriculture and fisheries in the second quarter of 2023. Fixed investment dragged down growth reflecting subdued demand for real estate and higher borrowing costs due to the lagged effects of monetary tightening. Increased vacancy rates in commercial and residential real estate are weighing on the recovery of private construction. The decline in private building permits since 2020 has also reflected authorities' restrictions on the Philippine offshore gaming operators. Fiscal spending also contributed negatively in Q2 2023 largely due to the underspending of current expenditure and base effects related to the election-related spending in the previous year.

**Breakdown of Fixed Investment**

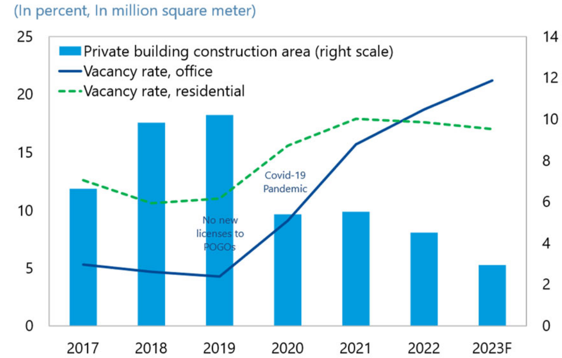
(2019 Q4=100, seasonally adjusted )




Sources: Haver Analytics; and IMF staff calculations.

**Vacancy Rates and Construction Area in Metro Manila**

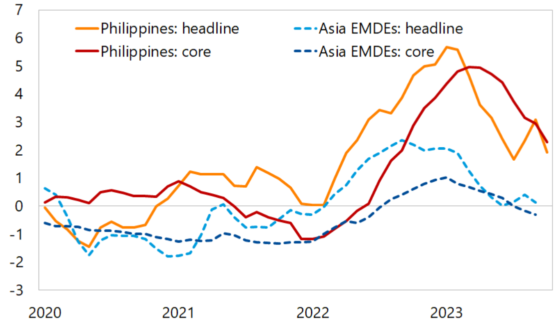
(In percent, In million square meter)




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

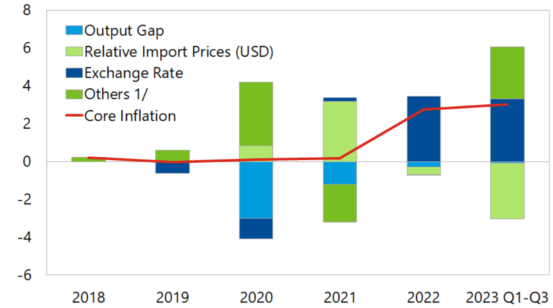
5. **Headline inflation has decelerated, but is facing renewed price pressures and core inflation remains elevated**. The relatively elevated headline inflation compared to Asian peer countries can be partly attributed to the Philippines' having no or minimal administered prices on food and fuel and instead providing direct support to affected sectors. Headline inflation decelerated from the peak of 8.7 percent (y/y) in January but ticked up to 4.9 percent (y/y) in October from the recent low of 4.7 percent (y/y) in July due to fuel and food prices. Core inflation remained elevated at 5.3 percent (y/y) in October, though on a declining trend (Figure 2). Decisive monetary tightening, decrease in import prices, and the moderate minimum wage hike (from PHP570 to 610 for the non-agriculture sector in Metro Manila) in July 2023 and non-monetary measures including increases in food imports have helped mitigate inflationary pressure.

**Headline and Core Inflation**
(In percent; deviation from headline target)




Sources: Haver Analytics; and IMF staff calculations.
Note: Asia EMDEs includes China, India, Indonesia, Malaysia, Philippines, Thailand and Vietnam.

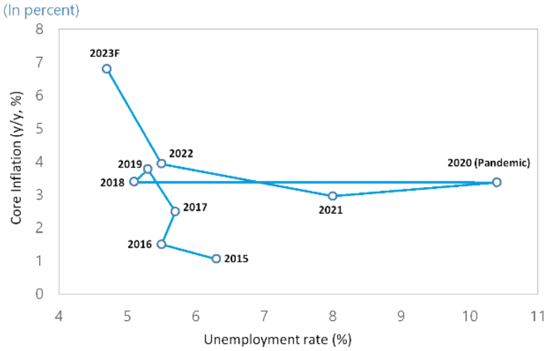
**Drivers of Core Inflation**
(In percent, deviation from target; rolling window estimation)




Source: IMF staff estimates based on APD Regional Economic Outlook, October 2022.
1/ Others includes lagged core and inflation expectations.

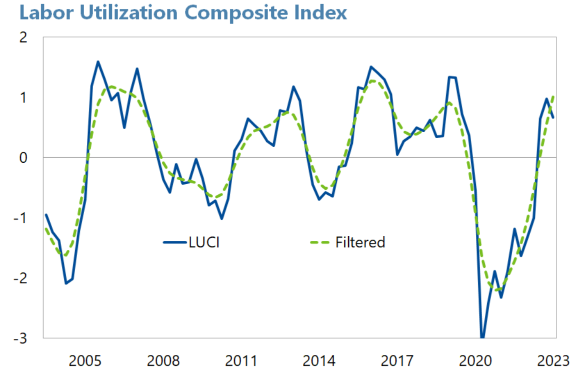
**6. The labor market has normalized, driven by the service sector**. The unemployment rate and underemployment rate remain close to their historical lows, at 4.5 percent and 10.7 percent, respectively, in September, and their fall has been associated with the rise in core inflation. The Labor Utilization Composite Index (LUCI)[1] has also largely recovered as the labor force participation rate moved above pre-pandemic levels although broader measures incorporating the informal labor market suggest some slack remains.

**Core Inflation and Unemployment Rate, 2015-2023**
(In percent)




Sources: Haver Analytics; and IMF staff estimates.

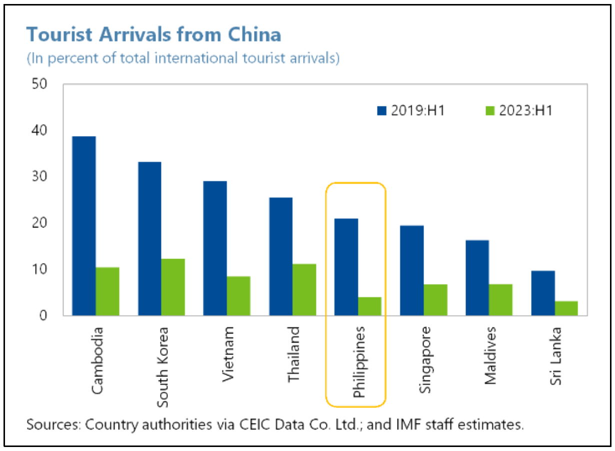
**Labor Utilization Composite Index**

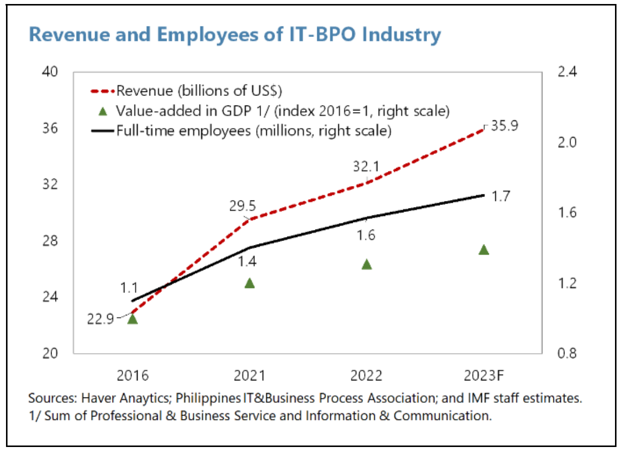



Sources: Armstrong and others (2016), Developing a Labor Utilization Composite Index for New Zealand, Reserve Bank of New Zealand; and IMF staff estimates.

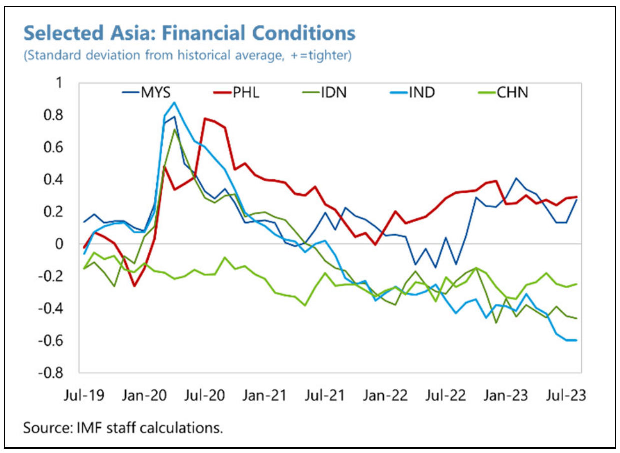
**7. The current account deficit is narrowing from the post-pandemic widening**. The CA deficit widened to 4.5 percent of GDP in 2022 from 1.5 percent of GDP in 2021. The external position in 2022 is assessed to be moderately weaker than the level implied by macroeconomic fundamentals and desirable policies (Annex I). The deficit has been narrowing in 2023, supported by lower imports of fuel and capital goods, and a strong recovery in the service sector benefiting from the easing of travel restrictions in China in early 2023 and continued strength of the IT-BPO industry amid the global digital transformation. Gross international reserves (GIR) were rebuilt to US$101.1 billion in October 2023 from the recent trough of US$93.0 billion in September 2022. GIR remains comfortable based on the IMF's ARA metric (190 percent), covering 7.2 months of imports in 2023.

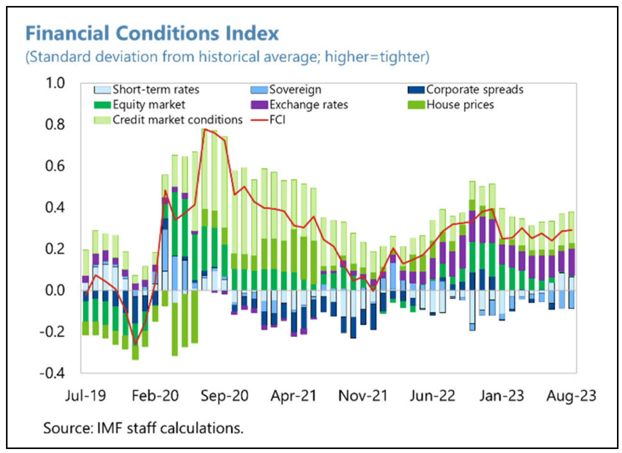
[1] The LUCI consists of unemployment rate, underemployment rate, mean hours worked, minimum wage, and labor force participation rate. It assesses inflationary pressures stemming from the labor market and wage dynamics.




**8. Domestic financial conditions have tightened**. While sovereign spreads have returned to pre-pandemic levels, private credit growth has slowed due to more stringent credit standards and a weaker exchange rate, closing the positive credit gap (Figure 4). Real estate prices remain below previous highs but corporate spreads are low.




**9. Fiscal consolidation is on track**. The national government fiscal deficit narrowed from 8.3 percent of GDP in 2021 to 7.2 percent of GDP in 2022 (Figure 6),[2] as revenues recovered to pre-pandemic levels (reflecting a strong rebound in domestic consumption and higher prices of imported commodities), and current spending restraint (in particular, spending on goods and services). In the first half of 2023, the fiscal deficit was 18 percent lower than the same period in 2022, as revenues improved by 7.7 percent while spending was only higher by 0.4 percent, led by the 1.4 percent lower current spending. The national government debt increased marginally from 60.9 percent of GDP at end-2022 to 61.0 percent of GDP at end-June 2023.

# OUTLOOK: A MORE GRADUAL DISINFLATION

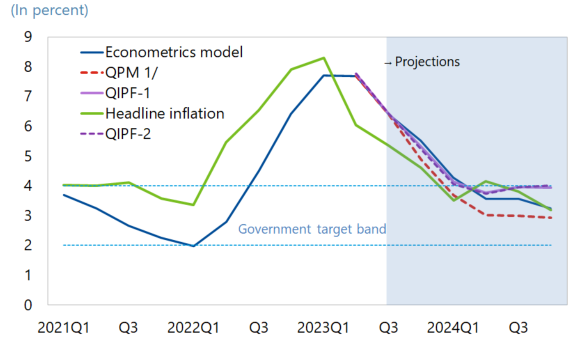
**10. Growth is expected to bottom out in 2023**. Real GDP growth is expected to bounce back in the second half to reach 5.3 percent in 2023 and 6.0 percent in 2024, supported by an acceleration in

[2] Based on the Government Finance Statistics (GFS) 2014 definition.

public investment and improved external demand for the Philippines' exports. The output gap is projected to close in 2023 from the positive gap, as policy normalization bites and remains close to balance in 2024. The recovery in private investment is anticipated to take time as excess real estate inventory is run down. The government's infrastructure program, opening up of sectors to greater FDI and private sector participation through PPP modalities will gradually crowd in private investment and help realize a growth potential of about 6-6½ percent over the medium term.

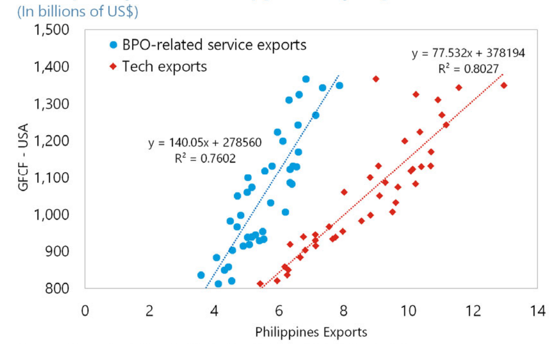
**11. Inflation is projected to gradually approach the target in early 2024, though recurrent supply shocks cloud the disinflation trajectory**. Headline inflation is forecast to average 6.0 percent in 2023 and converge to the target band in Q1 2024 based on the October 2023 World Economic Outlook (WEO) assumptions and the expected normal rice harvest in Q4 2023, although the reduced rice stocks and disincentives to importation add to uncertainties.[3] Core inflation is likely to remain above the upper target band in 2023 and fall within the range by Q1 2024 based on the IMF's Philippines quarterly projection model (QPM) (Annex II), econometric model, and quantitative model for the integrated policy framework (QIPF) forecasts predicated on ex-ante real interest rates remaining above neutral levels and the moderate minimum wage hike observed in Metro Manila being followed by other regions.[4]

**Core Inflation Projections**
(In percent)




Source: IMF staff estimates.
1/ QPM forecast is based on GAS/WEO-consistent external projection made by ICD's G3MOD with a forthcoming ICD working paper.

**US Capex Cycle and Philippines Key Export Items**
(In billions of US$)




Sources: Haver Analytics; CEIC Data Co. Ltd.; and IMF staff calculations.

**12. The external position is projected to further strengthen**. The current account deficit is expected to continue to narrow to 3.0 percent of GDP in 2023 and 2.6 percent of GDP in 2024 from 4.5 percent of GDP in 2022, supported by lower global commodity prices, a pick-up in electronics exports in the second half of 2023 as the global tech cycle turns, and higher service exports driven by a rebound in the global capex cycle.

**13. Fiscal consolidation is expected to continue in 2024**. Even with public spending projected to accelerate in the second half of 2023, the fiscal outturn is expected to fall below the deficit ceiling of 6.1 percent of GDP from a deficit of 7.3 percent of GDP last year mainly due to lower transfers to

[3] A temporary domestic retail rice price cap introduced on September 5 was lifted on October 4, and the provision of sanitary and phytosanitary clearance required for rice importation has been recently expedited.

[4] See the companion Selected Issues Paper, "The Philippines Quantitative Integrated Policy Pilot: Increasing Analysis Scope and Depth", for a discussion of recent extensions of the IMF's QIPF model, including an overview of its key features, baseline forecasts, and several risk scenarios.

local government units (LGUs).[5] Revenue collection in 2023 thus far is better than targeted but is projected to be lower than in 2022 as a percent of GDP, largely due to the implementation of the second tranche of the personal income tax rate reduction and the negative cash flow impact resulting from the transition from monthly to quarterly value-added tax (VAT) payment. The proposed FY2024 budget, approved by the House of Representatives in September and in line with the MTFF, aims to achieve a deficit of 5.1 percent of GDP, with consolidation mainly coming from higher tax revenues and restraint in current expenditure. Staff estimates a similar deficit but with higher non-tax revenues (reflecting consistent overperformance in the past) and higher interest payments, reflecting elevated global and domestic interest rates.

**National Government Fiscal Operations, 2021-2024**
(In percent of GDP)

| | 2021 | 2022 | 2023 | | | 2024 | |
|---|---|---|---|---|---|---|---|
| | Actual | Actual | Fiscal program | FP (revised) | Est. | Fiscal program | Proj. |
| Revenues | 15.5 | 16.1 | 14.9 | 15.3 | 15.7 | 16.1 | 16.4 |
| Tax revenues | 14.1 | 14.6 | 14.2 | 14.6 | 14.3 | 15.3 | 15.0 |
| Non-tax revenues | 1.4 | 1.5 | 0.7 | 0.8 | 1.4 | 0.7 | 1.4 |
| | | | | | | | |
| Expenditure | 23.8 | 23.3 | 20.8 | 21.4 | 21.4 | 21.1 | 21.4 |
| Current expenditure | 19.1 | 18.6 | 16.8 | 17.1 | 17.2 | 16.6 | 16.9 |
| of which: | | | | | | | |
| Compensation of employees | 6.6 | 6.3 | 6.3 | 6.0 | 6.0 | 6.3 | 6.3 |
| Use of goods and services | 4.5 | 4.0 | 3.4 | 3.8 | 3.8 | 3.3 | 3.3 |
| Interest payment | 2.2 | 2.3 | 2.4 | 2.5 | 2.5 | 2.5 | 2.8 |
| Allotment to LGUs | 3.5 | 3.8 | 3.0 | 2.9 | 2.9 | 2.9 | 2.9 |
| Capital transfers to LGUs | 1.1 | 1.2 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Capital expenditure | 4.6 | 4.6 | 4.0 | 4.3 | 4.3 | 4.4 | 4.4 |
| | | | | | | | |
| Overall balance | -8.3 | -7.2 | -5.9 | -6.0 | -5.7 | -5.0 | -5.0 |

Sources: Philippine authorities; and IMF staff estimates.
Note: Based on GFS 2014 definition, privatization receipts are excluded from revenues; equity and net lending are excluded from expenditure; and capital transfers to LGUs are included under current expenditure. Staff projections for 2023 and 2024 GDP are used to calculate the percentage of GDP. Deficit based on the authorities' definition is about 0.1 percentage of GDP wider.

### *Authorities' Views*

**14. The authorities expressed confidence that growth would come in within the targeted range, though recognizing downside risks especially for 2023**. The official growth target ranges are 6-7 percent for 2023 and 6.5-8 percent for 2024. The Economic Development Group is accelerating public spending, particularly on infrastructure projects, by instructing its agencies to implement their catch-up plans. The growth drivers in 2024 include the acceleration of "Build Better More" infrastructure program, expansion of IT-Business Process Management (BPM) industry, and revitalization of the tourism sector. The authorities concur with the notion of a more gradual disinflation trajectory due to renewed supply-driven shocks including food and fuel prices. Nevertheless, they view that, in the absence of further supply-side shocks, inflation could return to within the target band by Q4 2023. Furthermore, they see the external position driven by savings and investment decisions and eventually narrowing or even transitioning into a surplus.

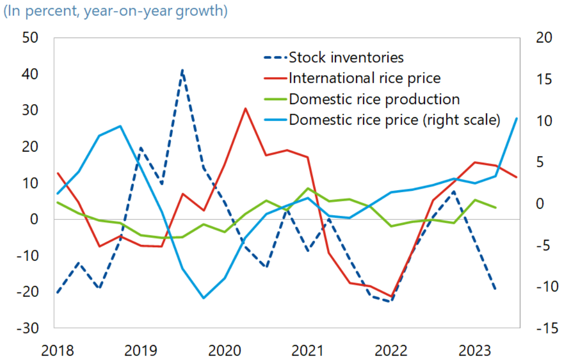
[5] The deficit-to-GDP ratios cited in the paragraph are based on the authorities' definition. The national tax allotment of LGUs is calculated based on national tax collected in the third year immediately preceding the budget year.

# RISKS: TO THE DOWNSIDE

**15. Risks to the near-term growth outlook are tilted to the downside** (Annex III). Persistently high inflation, globally and locally, can necessitate a further tightening of monetary policy, potentially amplifying financial vulnerabilities related to higher corporate leverage and balance sheet mismatches. An abrupt global slowdown including in China can dampen global trade and put downward pressure on the Philippines' goods and service exports. Sharp swings in market sentiment and risk premia could trigger a sudden tightening of financial conditions, capital outflows, and depreciation of the peso. Intensification of geopolitical tensions and fragmentation could disrupt supply chains and investment. On the other hand, a more resilient US economy could propel the Philippines electronic and service exports alongside a rebound in domestic demand supported by an easing of financial conditions.

**16. Risks to the inflation outlook are tilted to the upside**. Global oil prices have moved up and a prolonged elevation could result in inflationary pressure, particularly in the transportation and electricity sectors where petitions for price rises have increased. Higher global or domestic food prices, particularly rice due to potential typhoons affecting the harvest, the El Niño weather phenomenon, or export bans by rice-exporting countries could exert renewed price pressures (Annex IV). Even though the outcome of the wage negotiations for Metro Manila in July 2023 was not as high as initially anticipated, risks of second-round effects and continued political pressure to further raise the minimum wage remain.[6]

**Risks on Rice**
(In percent, year-on-year growth)




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

### *Authorities' Views*

**17. The authorities acknowledge that risks to near-term growth are tilted to the downside and inflation to the upside**. They recognize that there are greater downside risks to growth in the near term in light of the weaker Q2 2023 growth outcome, external headwinds and rising commodity prices. However, they highlight that the various supply-side measures implemented by the government help protect people's purchasing power and support growth while the BSP's monetary tightening is still being transmitted through the economy and should help bring down inflation further. Similarly, the expected acceleration of public spending in the second half of 2023 could help buoy better growth performance.

[6] A proposal to raise the minimum wage by 26 percent (PHP150) submitted to Congress and supersede the current annual regional wage setting process was not approved in the last congressional session.

# POLICY DISCUSSIONS

- *The authorities have handled the exit from COVID-19 appropriately by tightening monetary policy and implementing a fiscal consolidation which has helped contain inflation and increased policy space.*

- *Discussions focused on staying the course of policy normalization to anchor inflation expectations, increase economic and financial resilience to adverse shocks, and support the investment recovery. The baseline forecast implied by the IMF's extended PHL QIPF and QPM models, as well as risk scenarios conducted around this baseline, helped clarify how the policy mix can be calibrated in response to uncertainties in the transmission mechanisms and plausible shock combinations.*

- *There was consensus on maintaining a sufficiently tight monetary stance until inflation is firmly within the target range as well as standing ready to hike further should upside risks materialize. Doing so mitigates risks stemming from second-round effects, rising food prices, and bouts of risk-off sentiment and potentially non-linear exchange rate pass-through.*

- *Against that backdrop, fiscal consolidation envisaged as part of the MTFF serves an important dual role: it complements the tight monetary policy and creates more policy space to respond to adverse shocks down the road (including climate shocks). An even more ambitious revenue mobilization strategy would enhance social spending needed to achieve poverty reduction goals.*

- *The high interest rate environment has increased the urgency of strengthening systemic risk monitoring and financial supervision, reviewing key components of the bank resolution framework, expanding the macroprudential toolkit as well as calibrating it to counter vulnerabilities stemming from real estate exposures.*

- *Reaping the benefits of the demographic dividend will require sustained efforts to reduce infrastructure and education gaps, promote foreign investment, strengthen governance, and harness the digital economy. These reforms should be complemented by efforts to address supply side issues in the agriculture sector, strengthen social safety nets, while addressing climate risks through a multi-pronged approach.*

## A. Policy Mix: Staying the Course and Rebuilding Buffers

**18. Higher interest rates and fiscal consolidation are supporting disinflation by taming demand pressures and anchoring inflation expectations**. The IMF's QIPF and QPM model-based decompositions provide a read on the pace of interest rate transmission and the role of rate hikes and exchange rate flexibility in stabilizing inflation and mitigating output gap volatility. The quantitative models also help clarify that staying the course of policy is advisable even in the presence of interrelated disturbances—such as shocks to commodity prices, wage pressures and potentially non-linear exchange rate pass-through—which could otherwise dislodge expectations from the central bank's target zone. Prudent fiscal policy not only rebuilds buffers for future stimulus but also helps reduce inflationary pressures, augmenting interest rate hikes, and creating more conventional policy space.

**19. While allowing the exchange rate to absorb shocks remains crucial, FXI under certain circumstances may be appropriate to smooth destabilizing premia and address risks to price stability**. Evidence of heightened volatility in FX markets, measured by 3-month UIP premia, motivates the first "use case", which highlights how FXI could reduce "excessive" depreciation of the exchange rate in illiquid FX markets following a large risk-off shock. This is closely related to another potential rationale for FXI deployment, as large non-fundamental disturbances could prove problematic given non-linear pass-through to inflation expectations and in the presence of FX mismatches.[7] Given that the 2022 external sector position is assessed to be moderately weaker than the level implied by fundamentals and desirable policies and the Philippines has an inflation-targeting monetary policy framework, deployment of FXI, if any, should be temporary and not a substitute for warranted macroeconomic policy adjustments.

***Authorities' Views***

**20. The BSP is an inflation-targeting central bank and views the interest rate as its main policy instrument, with other policy levers playing a secondary role**. The authorities therefore emphasize that any foreign exchange interventions are exclusively aimed at ensuring orderly market conditions and preventing sharp exchange rate movements from unduly influencing the overall outlook for inflation or the public's inflation expectations.

**21. While the authorities appreciate the Integrated Policy Framework (IPF) analysis, they indicate that the IPF is relatively new and they would need to further study its application**. The authorities encourage further discussions of the model structure and parameters, both calibrated and estimated, and they are interested in understanding the main differences (e.g., focusing on monetary policy transmission and policy simulations) between the BSP's QPM that they have been customizing with the IMF Institute for Capacity Development (ICD) Technical Assistance (TA) and the IMF's QIPF.

**22. In addition, the authorities highlight the importance of nonlinear exchange rate passthrough**. They believe that small exchange rate fluctuations have no effect on inflation expectations, but that movements exceeding a certain threshold are capable of dislodging expectations, and, consequently, that such movements provide a potential rationale for smoothing exchange rate volatility.

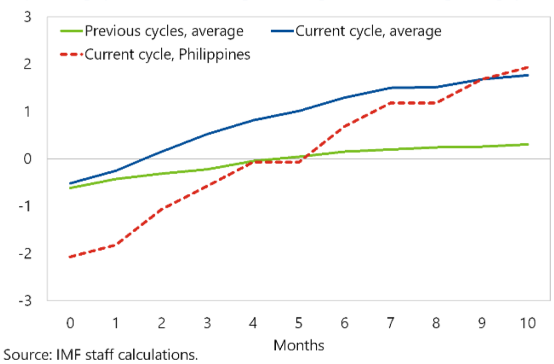
## B. Monetary Policy: Maintaining a Restrictive Monetary Stance

**23. The BSP should stay the course until inflation fully returns to the target**. The BSP hiked policy rates by 425 basis points cumulatively in 2022 and early 2023 before pausing in May. It

[7] BSP surveys indicate that corporates in some sectors have unhedged FX exposures. Relatedly, QIPF exchange rate pass-through (ERPT) estimates as well as internal BSP research on the role of non-linearities in ERPT underscore the potential price stability risks associated with large exchange rate movements. See also the companion Selected Issues Paper, "The Philippines Quantitative Integrated Policy Pilot: Increasing Analysis Scope and Depth", for a discussion of these two FXI "use cases".

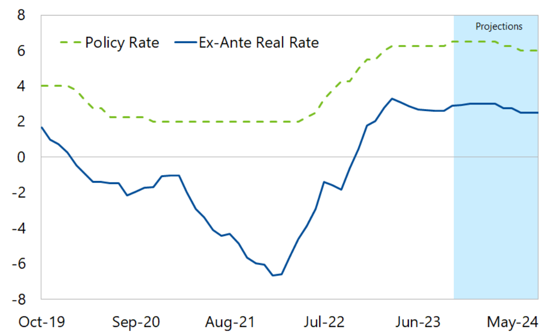
resumed in late October with an off-cycle 25 basis point hike due to continued inflationary pressures. With real rates above neutral (estimated between 1-2 percent), staff's assessment is that the BSP has reached a sufficiently tight stance to bring headline inflation down to the target band by Q1 2024. As risks to the inflation outlook, including second-round effects, remain firmly tilted to the upside, the BSP should stand ready to raise interest rates further should upside risks continue to materialize and maintain a higher-for-longer policy rate path until inflation firmly falls within the target range. The reduction of tariffs on imported food items could also help mitigate pressures on domestic food prices given their high level in some sectors (Annex IV).

**EM Asia: Tightening Cycles**
(In percentage points relative to long-run average, t=0 is start of tightening cycle)



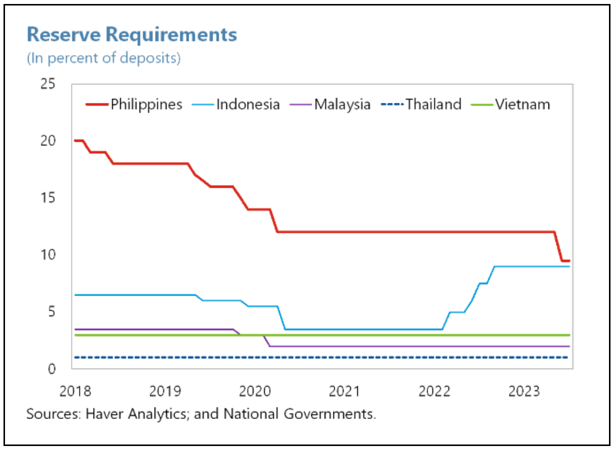

Source: IMF staff calculations.

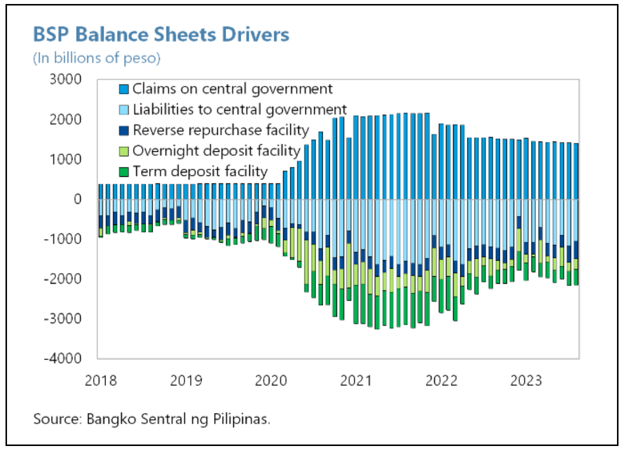
**Ex-Ante Real Interest Rate**
(In percent, year-on-year)




Source: IMF staff calculations.

**24. The BSP could usefully continue to refine its operational framework**. Over the medium term, the BSP aims to reduce the reserve requirement which is high compared to regional peers and poses an indirect tax on financial intermediation. The BSP cut the reserve requirement to 9.5 percent at end-June but combined this with the expiry of a pandemic-era measure that allowed banks to count loans provided to SMEs towards meeting their reserve requirements. In the future, the BSP could manage banking system liquidity more flexibly by expanding the use of market-based operations like reverse repurchase operations (RRPs). This approach is now viable due to large-scale purchases of government bonds during COVID-19. Following Fund TA, the BSP has moved to a variable rate RRP and introduced 56-day BSP bills to help manage liquidity and provide a market-determined benchmark for pricing short term instruments (Figure 3). As the BSP is exiting from the extraordinary liquidity support measures introduced during the pandemic and letting maturing treasury securities run-off, its communication of the desired size of its balance sheet in normal times including the use of its portfolio of treasury securities would be helpful (Figure 3).

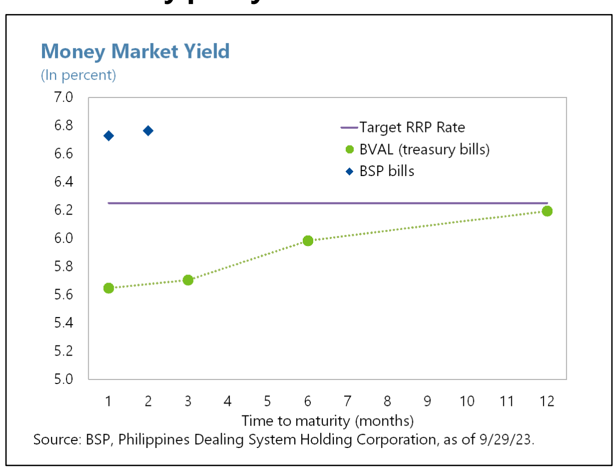



**25. Coordination between the BSP and the Bureau of the Treasury (BTr) on reforms to further develop the yield curve would be helpful**. The main issue facing the short-end of the curve is a large discrepancy between yields on BSP bills and Treasury bills. This discrepancy has created challenges for the banking sector in pricing debt instruments accurately, with the Bloomberg valuation tool (BVAL) relying exclusively on government bond yields and banks starting to use the RRP rate explicitly for pricing working capital loans. A smooth yield curve would help nurture the development of a derivatives market for hedging purposes. To harmonize the two markets, the BTr should refrain from keeping supply at the short end artificially low by transitioning to a price-taker model during bond auctions. Reducing the number of individual bond series on offer and consolidating maturities into a reduced number of benchmark bonds would help concentrate trading activity. Another area for coordination is the type of approved participants in each market as the current exclusion of non-banks from the BSP bill market is a major driver of the observed yield discrepancy. Other issues in the two markets, such as the obligations and performance of primary dealers including market-making and facilitating the use of repos of government securities, should also be addressed.

***Authorities' Views***

**26. The BSP agrees that maintaining a restrictive monetary policy stance continues to be appropriate until inflation falls firmly within target, particularly given upside risks to electricity and transportation prices**. Regarding the BSP's balance sheet, the BSP intends to utilize its holdings of government securities to support its monetary operations and thereby enhance the transmission of monetary policy. On the money market, the BSP is working on expanding the list of market participants with access to BSP bills which will help address the fragmentation of the market and has also requested follow-up TA from the IMF on developing the benchmark yield curve.

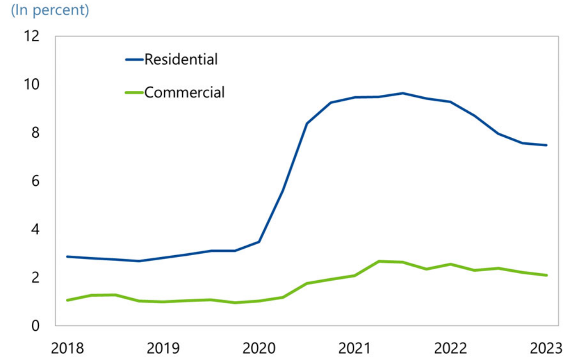


The BTr has the view that the yield differential is partly due to excess structural liquidity which will decline over time.

## C. Financial Sector Policies: Safeguarding Financial Stability

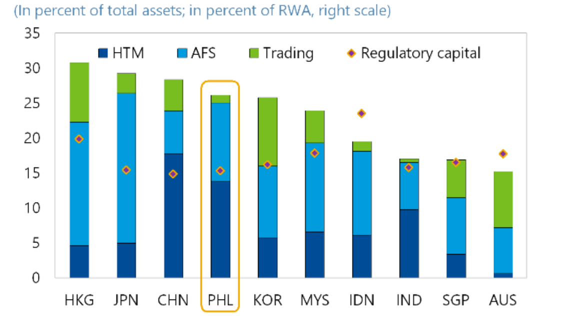
**27. Overall systemic risk remains moderate, reflecting a well-capitalized and liquid banking system**, **but pockets of vulnerabilities remain**. Banks' high share of holdings in held-to-maturity (HTM) portfolios and a stable deposit base have so far helped them weather the rising interest rate environment. The closing of the credit gap and conservative loan-value ratios (60 percent for most loans) also reduced credit costs. However, despite the recent decline, the ratio of non-performing loans (NPLs) on residential real estate remains above the pre-pandemic level. As interest rates on loans taken out during COVID-19 reset, NPLs could increase further, especially in the commercial real estate (CRE) segment where vacancy rates remain elevated compared to pre-pandemic levels and some developers have high leverage. Despite the regulatory limit for real estate loans (25 percent of total loans), a prolonged CRE slowdown would still affect banks' profitability (Figure 4). In addition, foreign exchange mismatches may become a growing problem as corporates have increased their external borrowing over recent years while hedging markets remain underdeveloped. The authorities are working to address recommendations from the previous Article IV Consultation (Annex V) and the 2021 FSAP (Annex VI). Progress has been made on phasing out pandemic-era regulatory forbearance measures and the authorities are working on the crisis management framework (paragraph 28) and outstanding Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) action items (paragraph 30) but scope for further action remains along all dimensions. In particular, uncertainty about vulnerabilities of financial conglomerates and their linkages to nonfinancial corporates remains due to material data gaps in their consolidated supervision. Given vulnerabilities in the real estate sector and conglomerate exposures, the authorities could consider introducing a sectoral systemic risk buffer (SyRB) for real estate exposures or increasing relevant risk weights. In addition, the BSP should move toward a positive neutral countercyclical capital buffer (CCyB) over the medium term and could consider communicating its intention early on to signal its commitment.

**Non-Performing Real Estate Loans**
(In percent)




Sources: BSP via Haver Analytics; and IMF staff estimates.

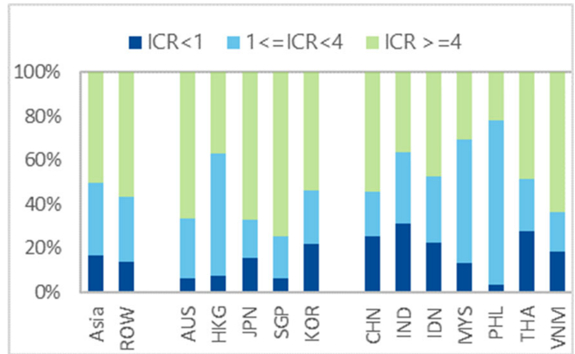
**Share of Banks' Mark-to-Market Securities Portfolio**
(In percent of total assets; in percent of RWA, right scale)




Sources: Fitch, Bloomberg Finance L.P.; and IMF staff calculations.
Note: MTM portfolios include held-to-maturity (HTM), available for sale (AFS), and trading book securities.
RWA= risk weighted assets.

**28. The authorities will need to continue to make progress on their agenda to strengthen financial supervision and regulation**. The work already undertaken by supervisory colleges to improve coordinated oversight of financial conglomerates is welcome but needs to expand further in coverage. The BSP, Securities and Exchange Commission (SEC), and other regulatory agencies under the Financial Sector Forum (FSF) should collaborate closely to address remaining data gaps on large conglomerates and expand their stress testing capabilities. Such exercises should focus on sectors in which firms are most leveraged. Meanwhile, the corporate insolvency framework could be improved by introducing out-of-court restructuring and settlement options. The advent of new digital banks, electronic money issuers (EMIs), and virtual asset service providers (VASPs) in the financial system has helped improve access to finance but close monitoring by regulators is required. The BSP should ensure robust regulation (in line with the IMF-FSB Synthesis Paper on Policies for Crypto-assets) is in place before lifting the moratorium on digital banks and VASPs.

**Corporate Debt in Vulnerable Firms**
(In percent of all corporate debt)




**29. The global refocusing on bank resolution frameworks is an opportune time to strengthen the current regime**. The current system in the Philippines is outdated and relies on finding a willing rescuer for a distressed bank. In line with Fund TA, the BSP's intention to establish a separate resolution unit within the institution and start working on a resolution manual is welcome. The prompt corrective action (PCA) framework, most importantly its overly long timelines, also warrants reform. The BSP's ongoing efforts to improve its emergency liquidity assistance (ELA) and lender of last resort (LOLR) frameworks can usefully complement efforts under bank resolution.

**30. Efforts to progress on outstanding AML/CFT issues need to be stepped up swiftly**. The Philippines was placed on the list of jurisdictions under increased monitoring in June 2021, and the deadline to complete the full action plan by January 2023 was missed. The authorities are committed to implementing the action plan and some progress has been made since then, for instance on financial institutions' enhanced understanding of targeted financial sanctions obligations. However, the Financial Action Task Force (FATF) determined at the June 2023 plenary that there are still deficiencies. The key remaining gaps identified by the FATF are in the areas of effective risk-based supervision of designated non-financial businesses and professions, mitigating risks associated with casino junkets, enhancing law enforcement agencies' access to beneficial ownership information, investigating and prosecuting complex money laundering cases, and increasing the identification, investigation, and prosecution of terrorism financing cases. Separately, reforming the bank secrecy law will enhance the BSP's supervisory powers and strengthen AML/CFT effectiveness.

***Authorities' Views***

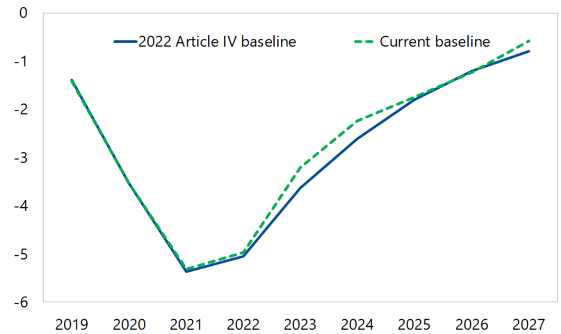
**31. The authorities view vulnerabilities in the conglomerate and real estate sector as well contained, while being open to strengthening prudential frameworks**. The BSP emphasizes that real estate loan growth has recently slowed down and NPLs are slightly lower than last year. Responding to the recommendation for a SyRB for real estate exposures, the BSP points to existing real estate loan limit and real estate stress test limits as performing a similar role. The BSP also has the authority to require banks to increase or hold capital beyond the minimum thresholds, if warranted. Moreover, the BSP has issued a circular requiring all banks to develop a recovery plan that is commensurate to their risk profile and systemic importance. The BSP is also moving forward on revamping the bank resolution framework and has an ongoing initiative to draft a resolution manual. Timelines in the PCA framework were updated in November 2021 and limited to two years. On AML/CFT, the authorities reiterate their commitment to completing all FATF action items and express optimism that substantial progress could be made by early 2024.

## D. Fiscal Policy: Consolidation Under the Medium-Term Fiscal Framework

**32. The MTFF will anchor debt sustainability and restore fiscal space**. It shows a firm commitment to a gradual fiscal consolidation path to reach the 3 percent deficit target in 2028 and bring the national government debt-to-GDP ratio to less than 60 percent over the medium term while highlighting the commitment to allocate at least 5 percent of GDP annually to infrastructure spending. The pace of fiscal consolidation outlined in the MTFF is appropriate, and the front-loaded fiscal consolidation starting in 2022–23 is expected to bring the national government debt down to below 59 percent of GDP in 2027 as recommended in the 2022 Article IV consultation. The authorities, with the help from Fund TA, are enhancing their macro-fiscal modeling capacity to better align fiscal and macroeconomic projections. As the MTFF has both debt and deficit as fiscal targets, the authorities could usefully identify that 60 percent of GDP debt ceiling as a fiscal anchor, while the fiscal deficit is an operational target to guide fiscal policy over the medium term.

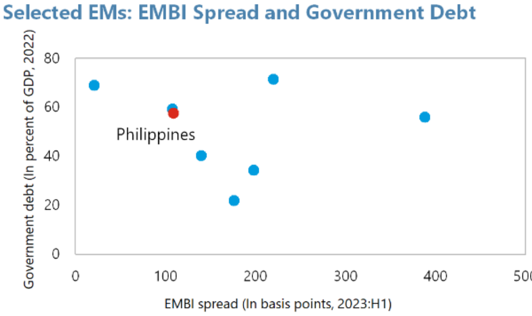
**33. The Sovereign Risk and Debt Sustainability Framework (SRDSF) points to an overall low risk of sovereign stress** (Annex VII). While the fiscal space has narrowed since the pandemic, some fiscal space remains and would be enhanced by adhering to the deficit targets in the MTFF. Gross financing needs are estimated to average at 9.3 percent of GDP over the medium-term while the financing risk is reduced by the maintenance of a Bond Sinking Fund which had around 3.2 percent of GDP of assets at end-2022. Given the higher public debt and increased financing needs, it is important to further enhance debt management capacity and deepen the fixed-income market to ensure stable financing, including from foreign investors. Publishing a medium-term debt strategy would strengthen debt management practices by providing clear borrowing objectives and intentions.

**Cyclically Adjusted Primary Balance**
(In percent of GDP)




Source: IMF staff estimates.

**Selected EMs: EMBI Spread and Government Debt**




Sources: Bloomberg L.P.; and IMF staff estimates.
Note: Peer countries include Bulgaria, Croatia, Hungary, Indonesia, Mexico, Peru, and Uruguay, which have similar credit rating to the Philippines.

**34. The MTFF could be further complemented**. The national government tax-to-GDP ratio, at 14.6 percent of GDP in 2022, is relatively low (Figure 6). Notably, the collection of VAT is particularly weak, capturing only a third of its potential tax base. The authorities could introduce a tax-policy oriented medium-term revenue strategy which lays out more ambitious tax measures to protect and finance more social spending and recover from natural disasters while keeping the consolidation path unchanged.[8] Timely implementation of tax policy measures identified in the FY2024 budget is critical. Additional measures could be considered to enhance revenue generation, including broadening the VAT and corporate income tax (CIT) bases by rationalizing exemptions, and evaluating the implementation of the 2021 Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) and incentivizing investment through expensing of capital spending.[9] The rationalization of the mining fiscal regime provides an opportunity to simplify the royalty and tax structure by introducing progressivity and reducing incentives for aggressive tax planning while establishing a competitive investment climate. These reforms are being complemented by ongoing efforts to improve tax administration, including through digital tax filing and electronic payments, and sustained efforts to enhance tax compliance. Examples of such efforts include the Bureau of Internal Revenue's Digitalization Program, and the Bureau of Customs' Computer-Aided Risk Management System. The upcoming Fund-led TA on assessing the performance of the tax administration system using the Tax Administration Diagnostic Assessment Tool (TADAT) will help pinpoint areas for further enhancing tax administration.

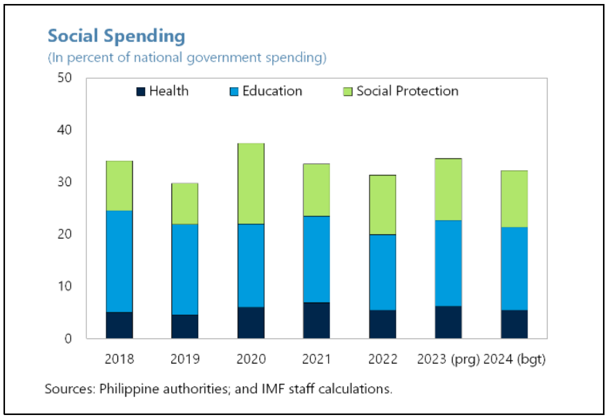
**List of Revenue Measures**
(In percent of GDP, cumulative)

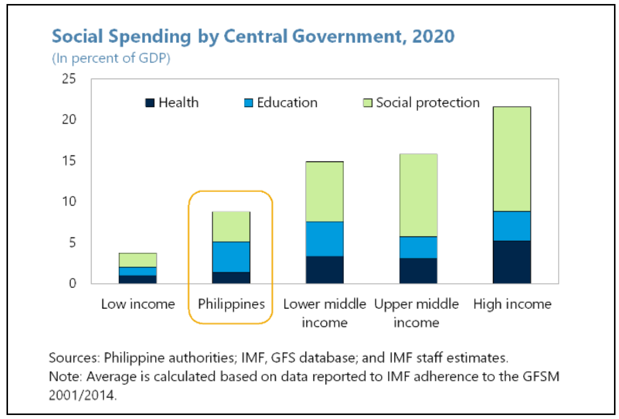
| | 2024 | 2025 | 2026 |
|---|---|---|---|
| VAT on digital service providers | 0.06 | 0.06 | 0.06 |
| Passive income and financial intermediary taxation | 0.01 | 0.00 | -0.01 |
| Excise tax on single-use plastics | 0.02 | 0.02 | 0.02 |
| Excise tax on pre-mixed alcoholic beverages | 0.001 | 0.001 | 0.001 |
| Excise tax on sweetened beverages and junk food | 0.29 | 0.31 | 0.34 |
| Mining fiscal regime | 0.05 | 0.04 | 0.04 |
| Excise tax on pick-ups | 0.02 | 0.02 | 0.02 |
| Motor vehicles road user's tax | | 0.05 | 0.10 |
| **Total** | **0.45** | **0.53** | **0.58** |

Sources: Philippines authorities, and IMF calculations.
Note: IMF staff projections for 2024-2026 GDP are used to calculate the percentage of GDP.

[8] See the companion Selected Issues Paper, "The Medium-term Fiscal Framework in the Philippines", for more details.

[9] See Selected Issues Paper, "Revenue Mobilization in the Philippines", prepared for the Philippines 2022 Article IV consultation.




**35. Implementing expenditure reforms will help reach the deficit targets**. During 2018-2022, the military and uniformed personnel (MUP) and veterans pension payments grew at an average of 12 percent annually. Reforming the MUP pension by instituting a contributory system and not indexing pensions to salaries of current personnel would create additional fiscal space. The gradual fiscal decentralization process was necessitated by the Mandanas-Garcia ruling effectively raising the share of total revenues allocated to the LGUs, which requires stepped-up capacity building on budgeting, execution, and reporting at the local level to help maintain essential public services and enhance accountability. Developing realistic transition plans in fiscal decentralization is critical in this regard. Collecting fiscal data from the barangays,[10] and setting up a unit in the Department of Finance to monitor fiscal risks from the LGUs would be important.

**36. Efforts focusing on enhancing public financial management (PFM) have gained momentum**. Key legislative initiatives include the Progressive Budgeting for Better and Modernized Governance and National Government Rightsizing Program to improve fiscal transparency and efficiency. The digital transformation of the PFM system has been reinitiated with the help from Fund TA through the planned implementation of an Integrated Financial Management Information System and use of effective data analytics tools to inform budget decision-making. Proper sequencing and timely implementation of these reforms are essential to enhance efficiency of public service delivery and governance, a challenging task that would be helped by drafting a PFM reform action plan. The plan to amend the Government Procurement Reform Act should help further enhance the legal and institutional framework for transparent and competitive public procurement. The access to procurement information and transparency has been improved by the implementation of the modernized Philippine Government Electronic Procurement System (PhilGEPs), while close monitoring of the number of bidders and data analytics would help address remaining weakness.

**37. Strengthening the oversight of government-owned and controlled corporations (GOCCs), PPPs, social security institutions (SSIs) is needed to enhance governance and reduce fiscal risks**. An informative Fiscal Risks Statement with detailed analysis of key fiscal risks and mitigation measures is published annually, but more could be done. Improving the oversight of the GOCCs requires the establishment of a cross-agency platform to strengthen coordination across

[10] Barangay is the smallest administrative division in the Philippines. There were 42,027 barangays in the Philippines as of April 2023.

oversight agencies, improvement in the database and tools for financial analysis and reporting of the GOCCs, and development of a framework for issuing guarantees to the GOCCs. The current administration's reemphasis on financing the country's infrastructure gaps through PPPs is well-placed and close attention will need to be paid to the selection of PPP projects, supported by clear value-for-money assessments and reporting of fiscal risks through a complete fiscal register on all PPPs. It is welcome that the new PPP Code codifies fiscal risk assessment in the early stage of PPPs and the IMF stands ready to provide further TA on quantifying fiscal costs (Annex VIII). The Philippines' three SSIs[11] have improved their disclosure of contract liabilities. Despite their running positive operating balance, close monitoring and analyzing their actuarial soundness is warranted given their defined benefit nature to reduce fiscal risks as the population gradually ages.

***Authorities' Views***

**38. There is broad agreement on the pace of fiscal consolidation and areas requiring revenue reforms**. The authorities express confidence in achieving the revenue and debt targets outlined in the MTFF. They are actively working on the legislative front by moving forward several priority tax measures (e.g., VAT on digital service providers (DSPs), Package 4 of the Comprehensive Tax Reform Program (P4); excise taxes on single-use plastics, sweetened beverages, junk food, and pre-mixed alcoholic beverages; the adjustment of the motor vehicle road user's tax; and the rationalization of the mining fiscal regime). Some of these tax measures are already in the advanced stages in the House of Representatives and with ongoing discussions in the Senate such as VAT on DSPs, and P4. They acknowledge the need to generate more revenues to support high-quality spending for social-economic development. They have requested support from Fund TAs on tax expenditure assessments and a VAT diagnostic to help broaden the VAT and CIT bases. They believe the Ease of Paying Taxes Act would improve compliance of tax obligations and help further enhance tax administration. They are receptive to the team's proposal for establishing a more formal debt anchor along with an operational deficit target. They will explore the publication of a MTDS. At present, they are already actively communicating their medium-term borrowing strategy and targets through investor relations engagements.

**39. The authorities are committed to implementing expenditure controls and enhancing PFM**. They are actively advancing several key PFM legislative initiatives and passing the MUP pension reform with limited compromise. Several measures on this front have been filed in Congress, specifically the Progressive Budgeting for Better and Modernized Governance, the National Government Rightsizing Program, and MUP Pension System Reform. The latter two bills were passed by the Lower House earlier this year. They acknowledge that continued capacity building of the LGUs will help ensure efficient and prompt delivery of essential public services. Meanwhile, improving data collection at the local level will facilitate the monitoring of the decentralization process. They also highlight that the recent enactment of the Automatic Income Classification of LGUs Act on October 26, 2023 will enable the LGUs to unlock their full economic potential. Furthermore, they expect that

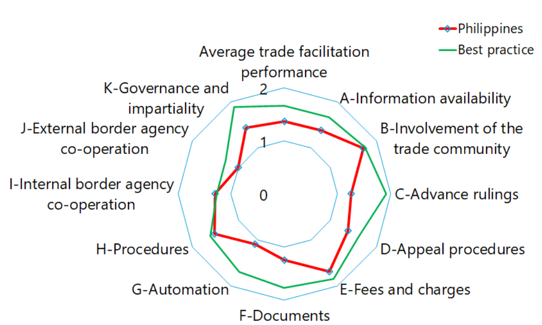
[11] They are the Government Service Insurance System, Social Security System, and Philippine Health Insurance Corporation.

the passage of the PPP Code will help bolster the role of PPPs in addressing infrastructure gap without resulting in additional fiscal risks.

## E. Structural Policies: Raising Productivity, and Harnessing the Digital Economy

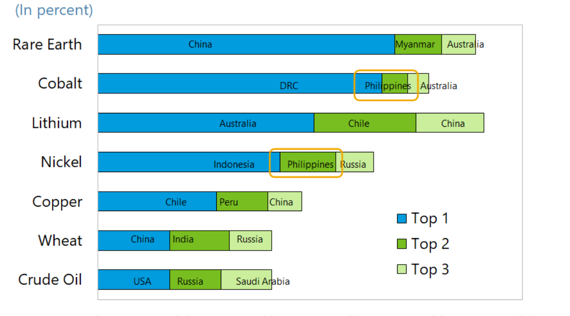
**40. Boosting the growth potential requires sustained efforts to raise productivity by reducing infrastructure and education gaps while promoting foreign investment** (Figure 7). Sustaining the significant growth gains of the past two decades and reaping the benefits of the demographic dividend will depend on further investments to diversify exports, promote the acquisition of new skills, and enhance connectivity across the archipelago. While the Philippines stands to gain from the RCEP and opening up to foreign investment, maximizing potential benefits would require reforms to address supply-side issues in the agricultural sector (including by reducing tariffs on essential items at the opportune time), remove non-tariff barriers linked to administrative procedures and regulations (especially in the agriculture and service sectors), boost efforts for responsible mining to meet increasing demand for green minerals such as nickel, as well as further efforts to improve the ease of doing business. The renewed push on trade facilitation and the establishment of green lanes to accelerate the implementation of flagship infrastructure projects are welcome developments. The Maharlika Investment Corporation (MIC) could contribute to the authorities' push for closing infrastructure gaps. The draft Implementing Rules and Regulations (IRR) (under review for further analysis) require that the MIC comply with the GOCC governance and procurement rules, be subject to the oversight of a joint Congressional oversight committee, and preclude the issuance of bonds guaranteed by the government. Such a governance framework adhering to public finance norms is appropriate as the MIC will be capitalized by public resources from the banking system while the authorities ensure that the banking system remains adequately capitalized. Following the review of the IRRs and the establishment of a Board of Directors, finalizing the strategic investment policy building on the experiences of such infrastructure funds elsewhere is a priority.

**Trade Facilitation Performance**
(0 to 2, where 2 designates the best performance that can be achieved)




Source: OECD, Trade Facilitation, 2022.

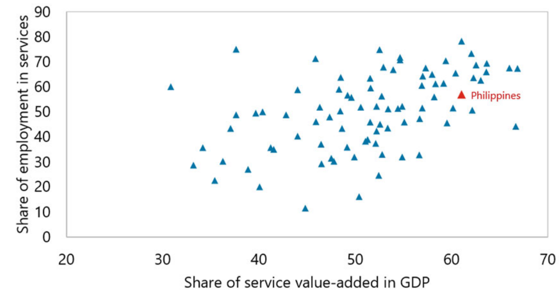
**Top 3 Producers for Key Commodities, 2019**
(In percent)




Sources: British Geological Survey, Dahl (2020); Fally and Sayre (2018); UN, Food and Agricultural Organization; Gaulier and Zignano (2010), BACI; International Energy Agency; United States Geological Survey; and IMF staff calculations.

**41. Digitalization of the economy will be key to supporting the service sector-led growth engine, promoting financial inclusion, and raising the efficiency of government services**. Because of the economy's early structural transformation to a service-based economy, raising the low level of service sector labor productivity through digital skills and portability will be essential. It will require upskilling of the labor force to leverage artificial intelligence (AI) tools and continue to move up value chains as well as efforts to develop the country's digital infrastructure, especially outside urban centers. A whole of government approach to digital transformation benefiting from international experiences would anchor the objectives of the Philippine Development Plan (Annex IX).

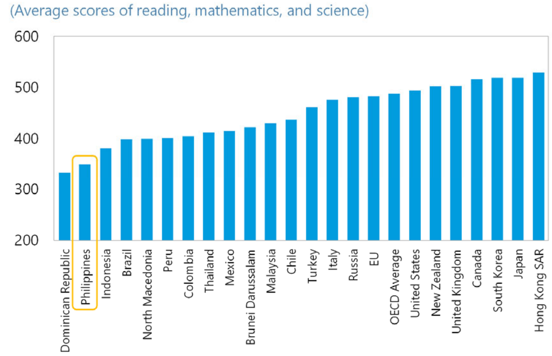
**EMDEs: Service Sector in GDP and Employment, 2021 1/**
(In percent)




Sources: International Labor Organization, ILO-Statistics; World Bank, World Development Indicators; and IMF staff estimates.
1/ or latest data available for Emerging Market and Developing Economies (EMDEs) excludin small states and tourism dependent economies.

**42. Policies should remain focused on reducing poverty levels and addressing inequality, both of which worsened because of the COVID-19 pandemic**. Following a reduction from 42.5 percent of the population in 1985 to 16.7 percent in 2018, the poverty rate increased to 18.1 percent in 2021.[12] The increase was however contained, thanks notably to conditional cash transfer programs, in-kind food support, and strong remittance flows. The authorities aim to reduce the poverty rate to single-digit levels by 2028 through sustained growth, job creation, and social protection which stands to benefit from higher revenue mobilization (Annex X). The recently piloted Food STAMP Program (delivered through the Electronic Benefit Transfer cards) holds promise to expand the coverage of programs and enhance their delivery to target the most vulnerable households, adding to the successful *Pantawid Pamilyang Pilipino Program* (4Ps). Inequality remains high, with the top 1 percent of earners capturing 17 percent of national income compared to 14 percent by the bottom 50 percent. This notably calls for policies to support job creation in middle-skilled occupations and inclusive rural development. Addressing inequality of opportunity and the lack of intragenerational mobility through enhanced access to quality health care and education will be important. Gender equality could also be enhanced by promoting greater female participation in the labor force, which stood at 51 percent in 2021 compared to 75 percent for male participation.

**PISA Scores, 2018**
(Average scores of reading, mathematics, and science)




Sources: OECD; and IMF staff calculations.

[12] Based on the National Poverty Line, which determines the proportion of the population living below the poverty threshold. According to the Philippines Statistics Authority, the poverty threshold is the amount necessary to cover a family of five's basic food and non-food needs. It was set at PHP12,030 per month for 2021, compared to PHP10,756 in 2018 (Highlights of the 2021 Full Year Official Poverty Statistics).

**43. The Philippine economy is highly vulnerable to extreme weather-related events**. Adaptation efforts should notably focus on increasing public investment for resilient infrastructure and supporting the most vulnerable households while paying due regard to debt sustainability. The IMF Debt Investment Growth and Natural Disasters (DIGNAD) simulations provide a baseline for climate adaptation needs and assessments in the Philippines.[13] A climate public investment management assessment (C-PIMA) would facilitate the adoption of green PFM practices and construction of resilient infrastructure. With an estimated 1.98 metric tons of carbon dioxide equivalent per capita emitted in 2020, the Philippines stood significantly below the global average of 4 metric tons per capita. Nonetheless, the country's Nationally Determined Contribution (NDC) targets cutting greenhouse gas emissions 75 percent below baseline levels in 2030, conditional on external support. Accordingly, the authorities aim to increase the share of renewables in the energy mix from 22 percent currently to 35 percent by 2030 and 50 percent by 2040. Mitigation efforts would also benefit from the introduction of a carbon tax with revenues raised used to partially compensate affected households and business.[14] Looking forward, the transition to renewable energies should build on a recent measure to facilitate foreign ownership in the renewable energy sector, as well as ongoing efforts of the FSF to stimulate sustainable finance, including through the operationalization of the Philippine Sustainable Finance Roadmap and Sustainable Finance Guiding Principles.

***Authorities' Views***

**44. The authorities highlight the upside to growth prospects from recent initiatives to promote foreign investment and digitalization of the economy**. They estimate that implementation of the RCEP Agreement could raise real GDP by 1.9 percent and lower poverty by 3.6 percentage points by 2031 thanks to enhanced market access for export products and services. They also point to the establishment of an Inter-agency Technical Committee on Non-Tariff Measures to study the impact of sanitary and phytosanitary measures on select agricultural commodities, address technical barriers to trade, and review import licensing procedures. In addition, the Anti-Red Tape Authority is leading a range of initiatives to streamline processes to open a business, facilitate the transportation of goods and products, and link the Philippines to the ASEAN Single Window. The authorities broadly concur on the importance of improving connectivity and upskilling the labor force to take advantage of digitalization and meet the challenge of AI, highlighting the establishment of an AI Council and discussions with the IT Business Process Association of the Philippines on joint projects to boost the digital skills of students.

**45. The authorities emphasize that existing social protection programs are well-targeted and they are doubling efforts to ensure that these will be fully delivered**. They are developing a community-based monitoring system generating disaggregated data necessary to better target beneficiaries and conduct more comprehensive poverty analysis. Further, they clarify that the 4Ps facilitates access to health and education services while the Food STAMP program should decrease

[13] See the companion Selected Issues Paper, "Building Resilience to Natural Disasters and Climate Change: A Model Application".

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

the incidence of involuntary hunger, thus ensuring complementarity. The authorities moreover indicate that they aim to increase the female labor participation rate to 52-54 percent by 2028.

**46. The authorities affirm their ambitious climate action commitments, including by mainstreaming sustainable finance**. Nonetheless, they emphasize that the contribution of vulnerable countries like the Philippines to carbon emissions has been limited but vulnerable sectors including micro, small and medium enterprises (MSMEs) are disproportionately affected by the impacts of climate change, underscoring the need for greater financial support from the international community.

# STAFF APPRAISAL

**47. The authorities have handled the COVID exit and subsequent challenges appropriately with structural reforms geared towards raising long-term and inclusive growth**. The Philippine economy has emerged strongly from the pandemic but has since confronted a confluence of global shocks. Monetary policy rates were raised decisively to fight inflation, complemented by fiscal consolidation underpinned by the MTFF. The PPP mechanism has been strengthened to help close the infrastructure gap. Several key reforms have been introduced to stimulate exports and spur foreign direct investment, including the ratification of the RCEP and the opening-up of public services and renewable energy sectors to full foreign ownership.

**48. Growth is expected to bottom out in 2023**. The rebound is supported by an acceleration in public investment and improved external demand for the Philippines' service exports. The 2022 external sector position is assessed to be moderately weaker than the level implied by fundamentals and desirable policies. Risks to the growth outlook are tilted to the downside, mainly stemming from persistently high inflation, globally and locally, and a highly uncertain global economic and geopolitical environment. Inflation is projected to gradually approach the target in early 2024, though recurrent supply shocks cloud the disinflation trajectory.

**49. Monetary policy should maintain a higher-for-longer policy rate path until inflation fully returns to target**. The BSP should stand ready to raise interest rates further should upside risks materialize. It should also communicate the desired size of the BSP balance sheet in normal times and continue coordination with the BTr to further develop the benchmark yield curve.

**50. The banking sector is well-capitalized and liquid, but pockets of vulnerabilities remain**. The banking system has weathered the high interest rate environment well so far, but banks' exposure to commercial real estate and leveraged corporates warrants close monitoring and supervisory actions. The BSP should continue to progress in strengthening financial supervision and regulation and the bank resolution framework.

**51. Efforts to progress on outstanding AML/CFT issues needs to be stepped up to support a swift and successful exit from the FATF gray list**. The key remaining gaps identified by the FATF include areas of demonstrating effective risk-based supervision of designated non-financial businesses and professions, mitigating risks associated with casino junkets, enhancing law enforcement agencies' access to beneficial ownership information, and investigating and prosecuting complex money laundering cases.

**52. Fiscal consolidation under the MTFF is on track and could be complemented by both revenue and spending measures**. The pace of consolidation is appropriate to reach the authorities' fiscal targets. The MTFF could be complemented by a tax-policy oriented medium-term revenue strategy which lays out more ambitious tax measures to create more fiscal space to support policy priorities. Reforming MUP pension system, improving expenditure efficiency, curtailing contingent liabilities, and effectively managing the process of decentralization and PPPs would help control spending, enhance governance, and reduce fiscal risks.

**53. Reaping the benefits of the demographic dividend will require sustained efforts to reduce infrastructure and education gaps, promote foreign investment, and harness the digital economy**. These reforms should be complemented by reforms to address supply-side issues in the agriculture sector, remove non-tariff barriers, boost efforts for responsible mining to meet increased demand for green minerals, reduce governance and corruption vulnerabilities, as well as efforts to improve the ease of doing business. Policies should remain focused on reducing poverty levels and addressing inequality, through creating quality jobs and education attainment, and enhancing social protection programs.

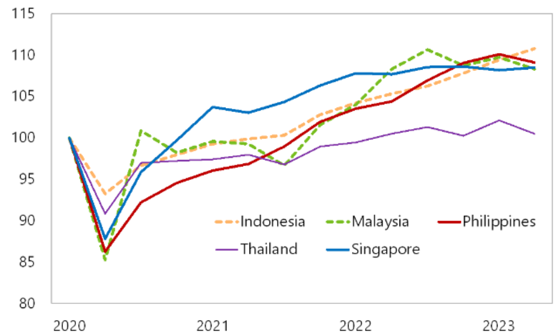
**54. Policies to address climate risks should take a multi-pronged approach**. Adaptation efforts should notably focus on increasing public investment for resilient infrastructure and supporting the most vulnerable households while paying due regard to debt sustainability. The transition to renewable energies should build on a recent measure to facilitate foreign ownership in the renewable energy sector, as well as ongoing efforts of the BSP to stimulate green finance.

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

## Figure 1. Philippines: Drivers of Growth

*The Philippines is one of the fastest recovering countries in ASEAN-5.*

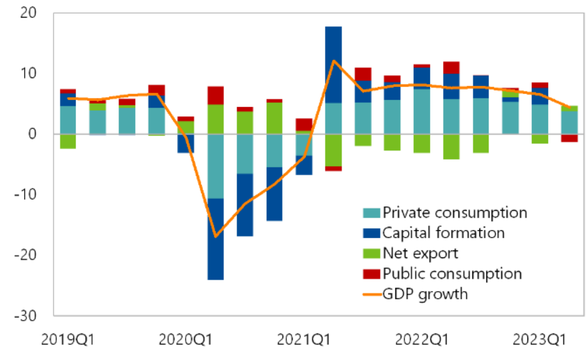
**Real GDP Level**
(2020 Q1 = 100)




Sources: Haver Analytics; and IMF Staff Calculations

*Pent-up demand drove the rebound, but the economy started cooling down with policy tightening in Q2 2023.*

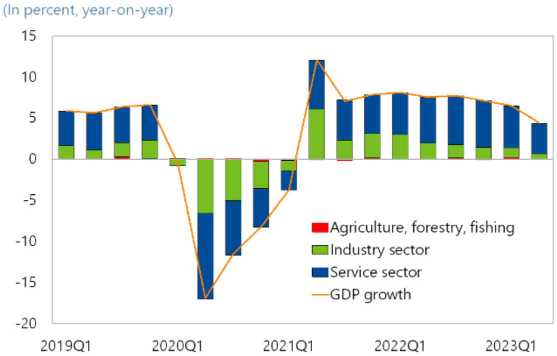
**Contribution to Growth**
(In percent)




Sources: Haver Analytics; and IMF staff calculations.

*Service sector has strongly picked up following the full reopening of the economy…*

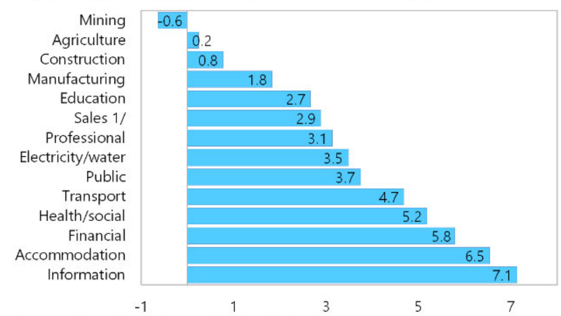
**Contribution to Growth, Production Side**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*… with recovery of contact-intensive industries (e.g., accommodation, transport, construction).*

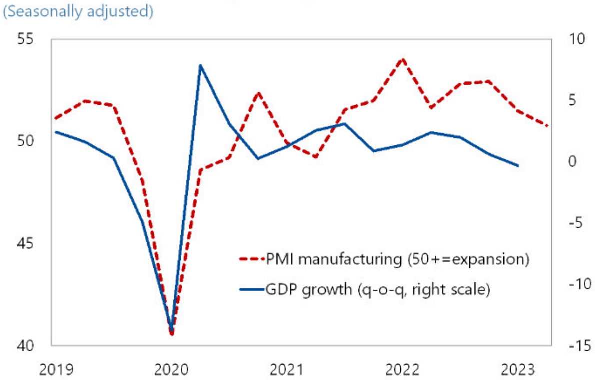
**Sectoral Growth Rates**
(In percent, year-on-year, average of 2020:Q2 to 2023:Q2)




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

*However, PMI has been moving in line with the slowdown of growth.*

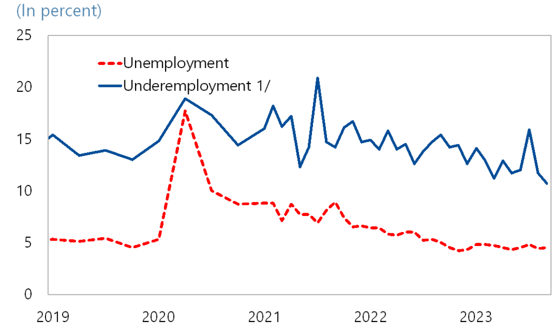
**Growth and Purchasing Manager Index**
(Seasonally adjusted)




Sources: Haver Analytics; and IMF staff estimates.

*Labor market has improved with unemployment rate and underemployment rate close to their historical lows.*

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

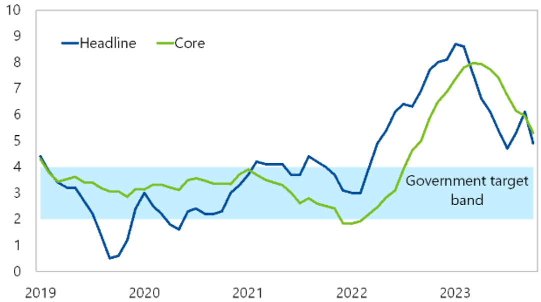



Source: Philippines Statistics Authority.
1/ Employed persons who want additional hours of work in their present job, or to have additional job, or to have a new job with longer working hours.

## Figure 2. Philippines: Inflation Dynamics

*Headline inflation decelerated from the peak in January, but recently ticked up….*

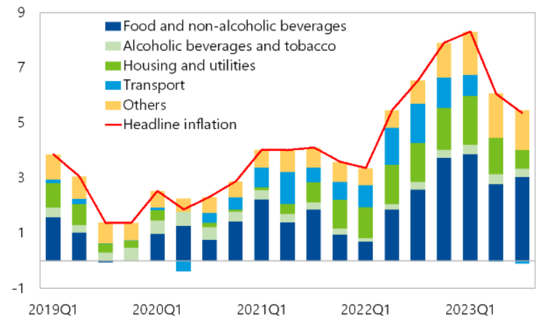
**Consumer Price Inflation**
(In percent, year-on-year)




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

*…mainly due to resurgence of supply-driven shocks.*

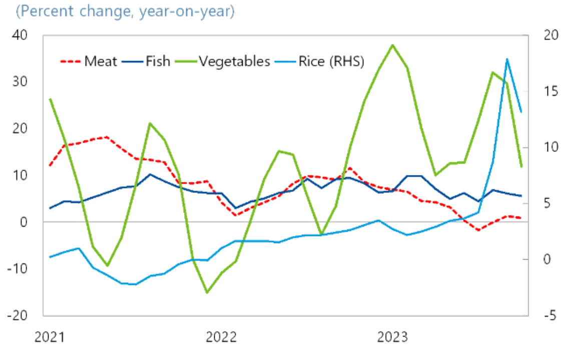
**Contribution to Inflation**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*Key food prices including vegetables and rice…*

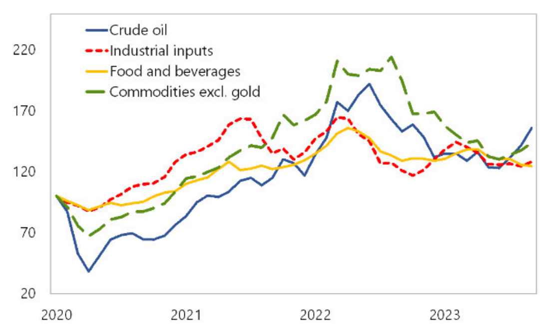
**Key Food Prices**
(Percent change, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*…and commodity prices, especially for crude oil, remain volatile.*

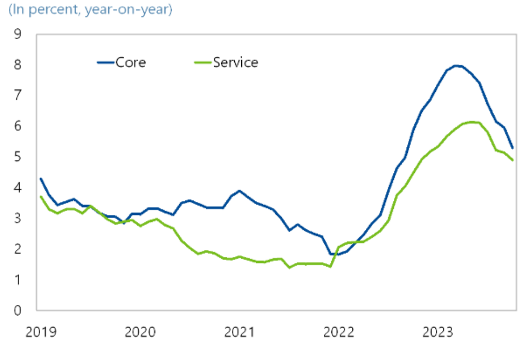
**Global Prices**
(Index, January 2019=100)




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

*Core inflation remains persistent but gradually eased reflecting decelerating service inflation.*

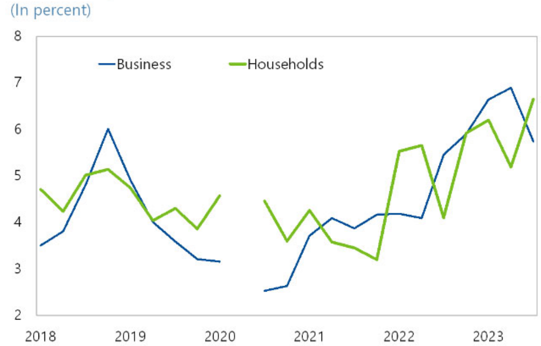
**Core and Service Inflation**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

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

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

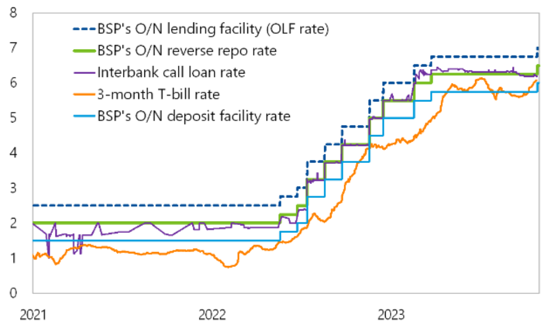



Sources: Bangko Sentral ng Pilipinas; and IMF staff estimates.

## Figure 3. Philippines: Monetary and Financial Conditions

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

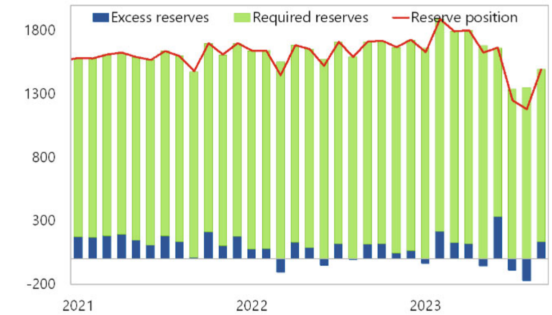
**Policy, Interbank and T-Bill Rates**
(In percent)




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

*Bank reserves fell following the reduction in the reserve requirement ratio.*

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




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

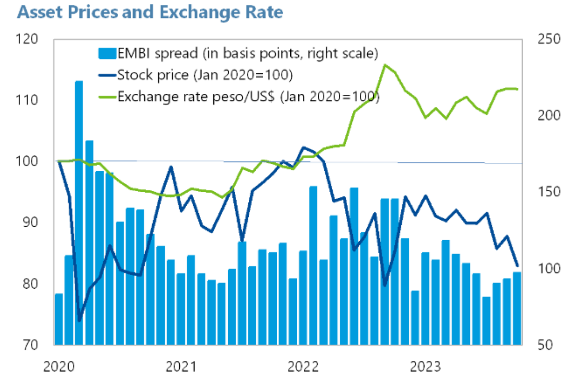
*The BSP is letting its government securities portfolio run off.*

**BSP's Credit to Government**
(In percent of GDP)


Sources: Haver Analytics; and IMF staff calculations.

*The stock market has not recovered pre-pandemic levels and the exchange rate has only partly reversed the depreciation that occurred in late 2022 but the EMBI spread is low.*

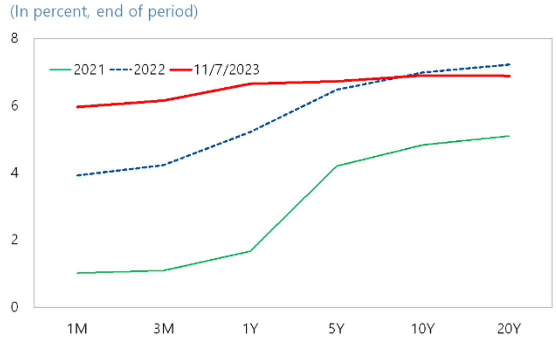
**Asset Prices and Exchange Rate**




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

*The yield curve has moved up and flattened but not inverted, …*

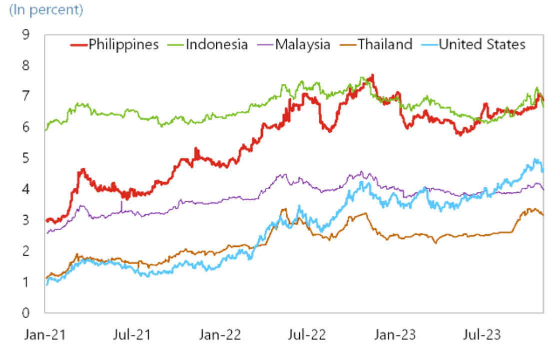
**Government Bond Yields**
(In percent, end of period)




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

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

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

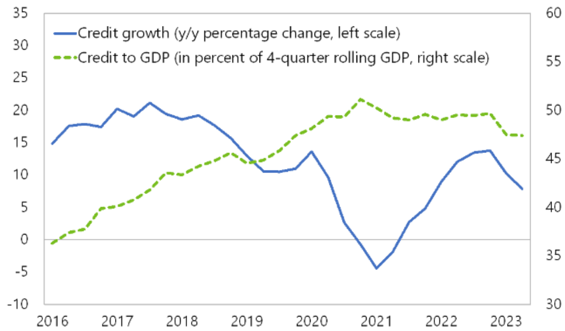



Source: Haver Analytics.

## Figure 4. Philippines: Macrofinancial Linkages

*Credit growth has started ticking down due to the BSP's monetary tightening campaign...*

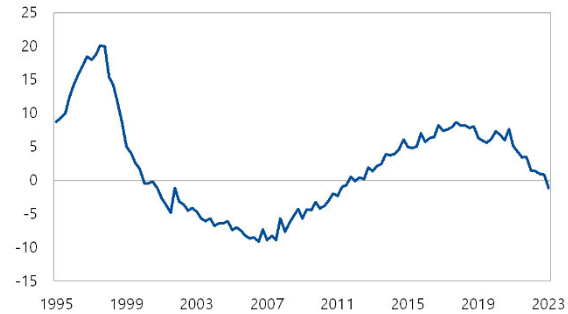
**Bank Credit Growth and Credit-to-GDP Ratio 1/**




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

*...which has helped close the credit gap.*

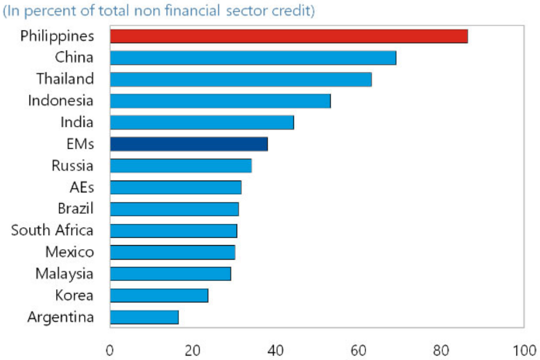
**Credit Gap**
(In percent)




Source: IMF, Systemic Risk Tracker.

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

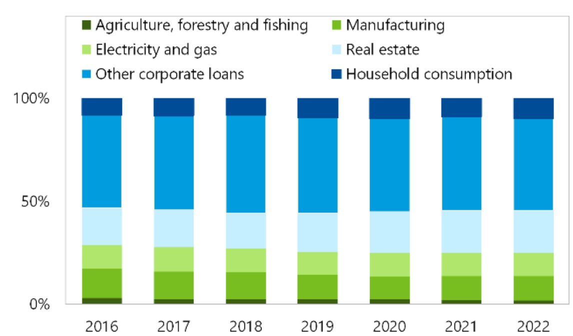
**Credit to Non-financial Corporates, 2022**
(In percent of total non financial sector credit)




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

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

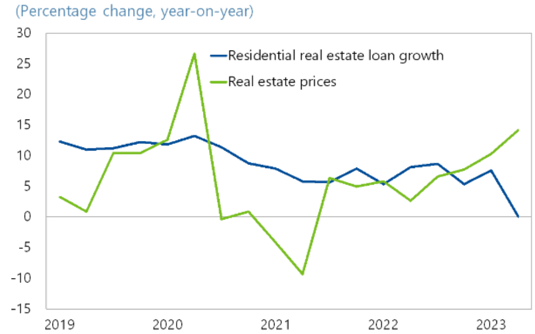
**Bank Loans by Sector**
(In percent of total)




Sources: Haver Analytics; and IMF staff etimates.

*Residential real estate prices have weathered the increase in interest rates but loan growth has slowed...*

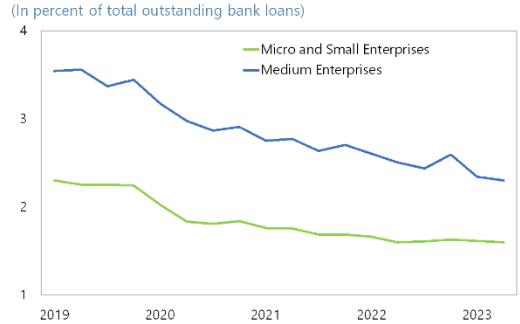
**Residential Real Estate: Bank Loan and Price Growth**
(Percentage change, year-on-year)




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

*...and the share of bank loans to micro, small and medium is still lower than pre-pandemic.*

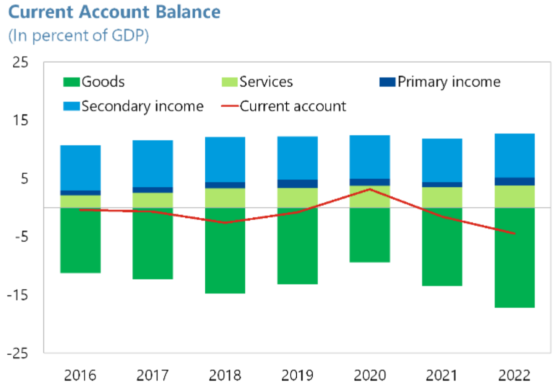
**Loans of All Banks to Micro-Small and Medium Enterprises**
(In percent of total outstanding bank loans)




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

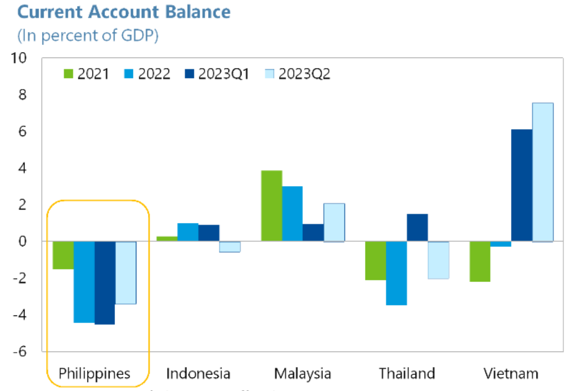
## Figure 5. Philippines: External Sector

*The current account balance moved back into deficit in 2021 and largely widened in 2022.*



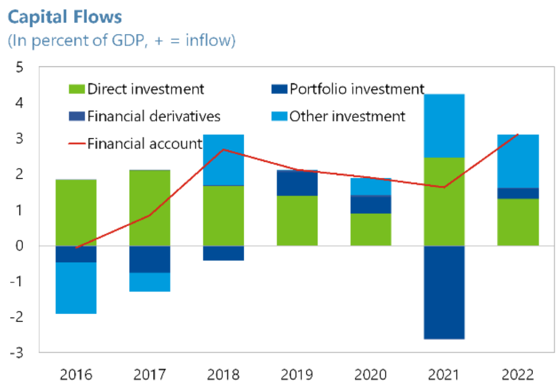

Sources: Haver Analytics; IMF staff estimates.

*The current account deficit is larger than in its peers in the region, but has been narrowing since 2023.*




Sources: Haver Analytics; IMF staff estimates.

*Net inflows of FDI decreased, but the net outflow in portfolio investment has stopped in 2022.*

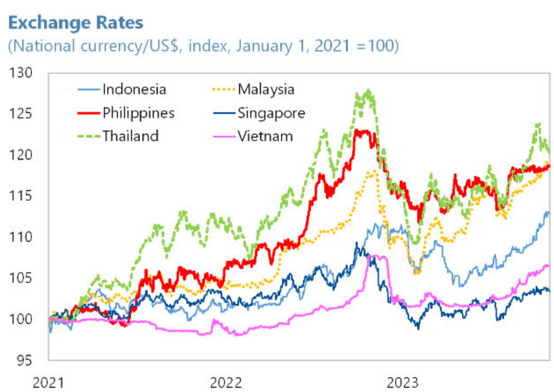



Sources: Haver Analytics; IMF staff estimate.

*NIIP reduced due to the large current account deficit and drops in foreign reserves.*

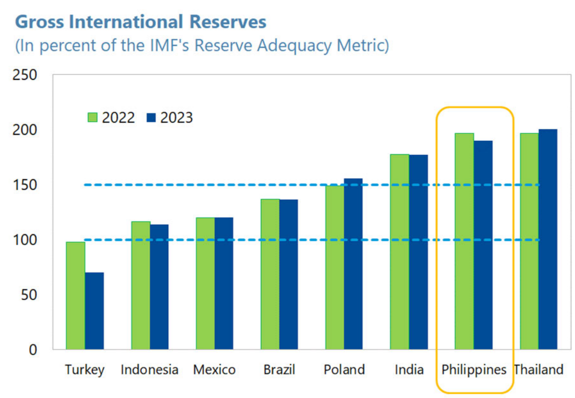

Sources: Haver Analytics; and IMF staff estimates.

*The peso has recently appreciated but remains volatile.*




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

*The Philippines' foreign reserve is well above the IMF's reserve adequacy metric in 2022 and 2023.*

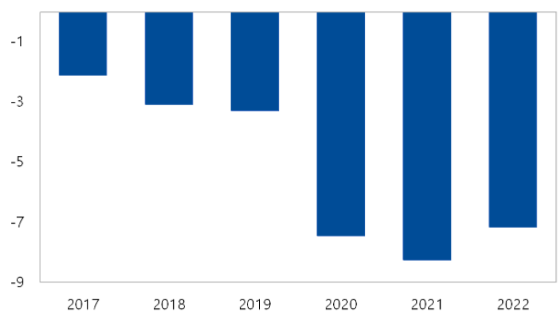



Sources: IMF, *International Financial Statistics*; and IMF staff estimates.

## Figure 6. Philippines: Fiscal Developments

*The overall budget deficit narrowed in 2022…*

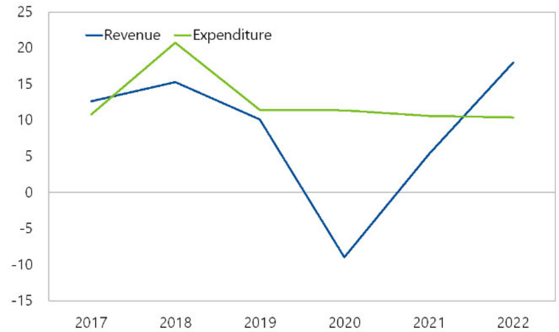
**National Government Overall Balance 1/**
(In percent of GDP)




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

*… as the strong recovery in revenues more than offset the increase in expenditure.*

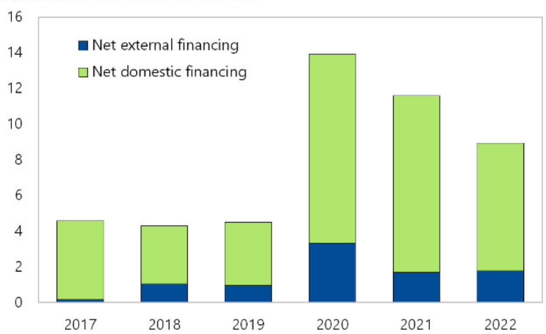
**National Government Revenue and Expenditure Growth**
(In percent, year-on-year)




Sources: Haver Analytics; and IMF staff estimates.

*Fiscal financing has increased since the pandemic…*

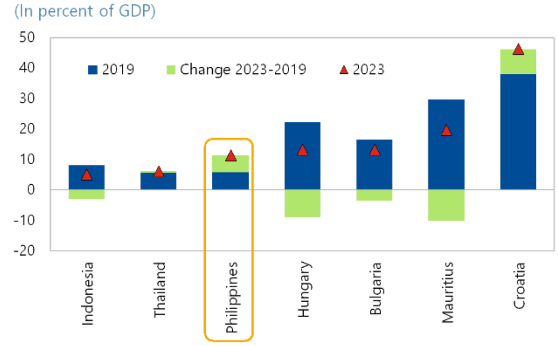
**National Government Financing by Sources**
(In percent of GDP, net of amortization)




Sources: Bureau of Treasury; and IMF staff estimates.

*…and is broadly in line with countries with similar credit rating.*

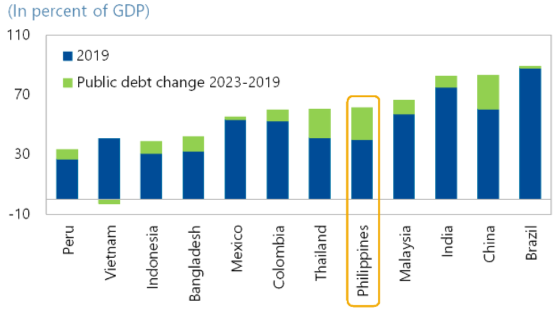
**Government Financing Needs**
(In percent of GDP)




Source: IMF staff estimates.

*Nevertheless, its end-2023 debt-to-GDP ratio will remain comparable to its peers, but higher than pre-pandemic level.*

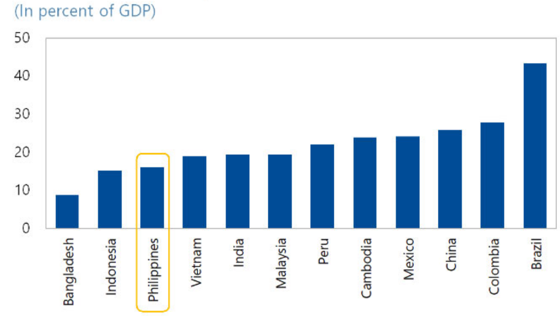
**Public Debt**
(In percent of GDP)




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

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

**Government Revenue, 2022**
(In percent of GDP)

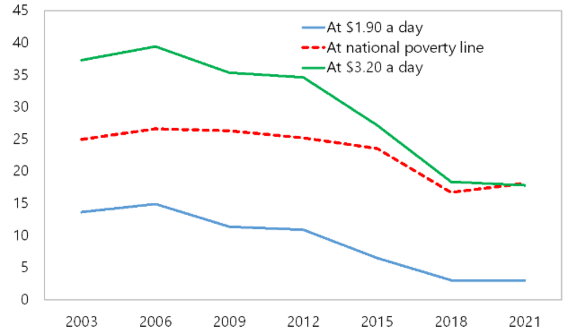



Sources: IMF, World Economic Outlook; and IMF staff estimates

## Figure 7. Philippines: Poverty and Business Environment

*Poverty was falling before the pandemic…*

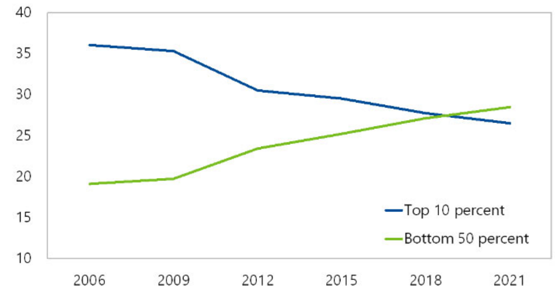
**Poverty Rate**
(In percent of population)




Source: World Bank, World Development Indicators.

*…and inequality improved markedly…*

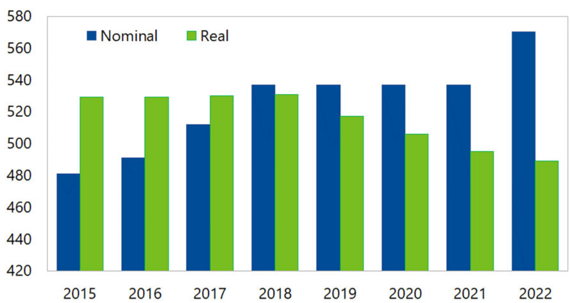
**Income Share Held by Top 10 and Bottom 50 Percent**
(In percent, deciles based on per capita annual income)




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

*…partly due to wage increases in those years.*

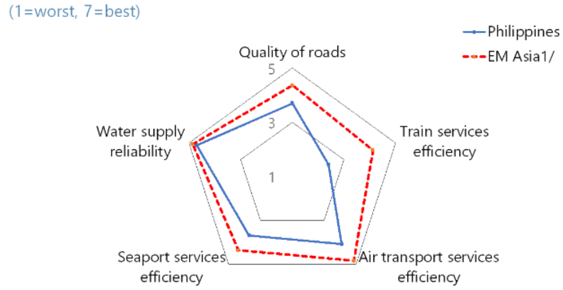
**Legislated Daily Wage Rate: Non-Agricultural Workers 1/**
(In peso)




Source: Philippines Department of Labor and Employment via Haver Analytics.
1/ For the National Capital Region.

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

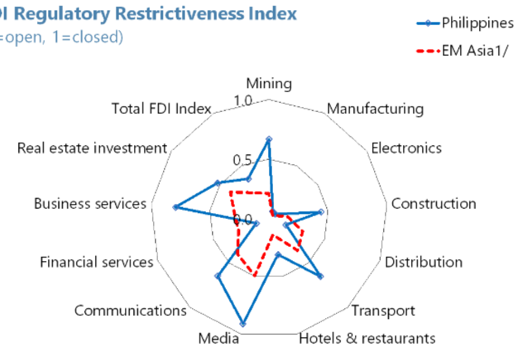
**Global Competitiveness Index: Quality of Infrastructure**
(1=worst, 7=best)




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

*Regulatory barriers remain high for inward FDI…*

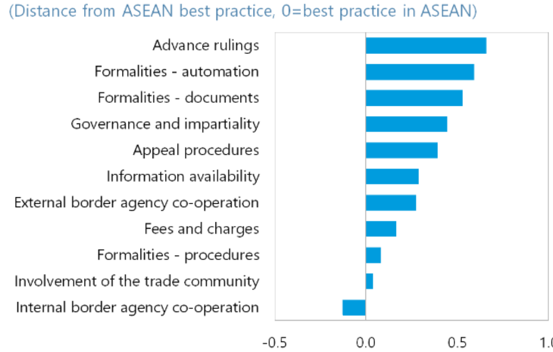
**FDI Regulatory Restrictiveness Index**
(0=open, 1=closed)




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

*…and international trade.*

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




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

## Table 1. Philippines: Selected Economic Indicators, 2020–25

Demographic: Population (2022): 111.6 million; Life expectancy at birth (2020): 72.1.
Poverty in percent of population: Below $1.90 a day (2021): 3; Below the national poverty line (2021): 18.1.
Inequality (2021, income shares): Top 10 percent: 32.5; Bottom 20 percent: 6.5.
IMF quota: SDR 2,042.9 million.
Main export products: electronics, mineral, agro-based products, equipments, and chemicals.

| | 2020 | 2021 | 2022 | 2023 Est. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|
| | (Annual percentage change, unless otherwise indicated) | | | | | |
| National account | | | | | | |
| Real GDP | -9.5 | 5.7 | 7.6 | 5.3 | 6.0 | 6.1 |
| Consumption | -5.3 | 4.7 | 7.7 | 4.0 | 5.7 | 6.5 |
| Private | -8.0 | 4.2 | 8.3 | 5.0 | 6.2 | 6.9 |
| Public | 10.5 | 7.2 | 4.9 | -0.4 | 3.0 | 4.3 |
| Gross fixed capital formation | -27.3 | 9.8 | 9.7 | 7.7 | 11.2 | 10.8 |
| Final domestic demand | -10.5 | 5.7 | 8.1 | 4.8 | 6.8 | 7.4 |
| Net exports (contribution to growth) | 4.0 | -2.3 | -2.2 | 0.0 | -1.5 | -1.8 |
| Real GDP per capita | -10.7 | 4.3 | 6.2 | 4.1 | 4.9 | 5.0 |
| Output gap (percent, +=above potential) | -8.5 | -3.5 | 0.4 | 0.0 | 0.1 | 0.1 |
| Labor market | | | | | | |
| Unemployment rate (percent of labor force) | 10.4 | 7.8 | 5.4 | 4.7 | 5.1 | 5.6 |
| Underemployment rate (percent of employed persons) | 16.2 | 15.9 | 14.2 | 12.8 | … | … |
| Employment | -6.1 | 11.7 | 6.6 | 2.4 | 1.6 | 1.6 |
| Price | | | | | | |
| Consumer prices (period average) | 2.4 | 3.9 | 5.8 | 6.0 | 3.7 | 3.0 |
| Consumer prices (end of period) | 3.3 | 3.1 | 8.1 | 4.5 | 3.2 | 3.0 |
| Core consumer prices (period average) | 3.4 | 3.0 | 3.9 | … | … | … |
| Residential real estate (Q4/Q4) | 0.8 | 4.9 | 7.7 | … | … | … |
| Money and credit (end of period) | | | | | | |
| 3-month PHIREF rate (in percent) 1/ | 1.3 | 1.5 | 5.7 | … | … | … |
| Claims on private sector (in percent of GDP) | 52.0 | 49.9 | 48.9 | 47.7 | 48.3 | 48.6 |
| Claims on private sector | -0.2 | 3.8 | 11.0 | 7.7 | 10.6 | 9.7 |
| Monetary base | 5.1 | 5.8 | 5.1 | 6.0 | 6.5 | 8.9 |
| Broad money | 8.7 | 8.0 | 7.8 | 7.6 | 8.9 | 8.2 |
| Public finances (in percent of GDP) | | | | | | |
| National government overall balance 2/ | -7.4 | -8.3 | -7.2 | -5.7 | -5.0 | -4.6 |
| Revenue and grants | 15.9 | 15.5 | 16.1 | 15.7 | 16.4 | 16.7 |
| Total expenditure | 23.4 | 23.8 | 23.3 | 21.4 | 21.4 | 21.3 |
| National government gross debt | 54.6 | 60.4 | 60.9 | 61.1 | 61.1 | 60.9 |
| Balance of payments (in percent of GDP) | | | | | | |
| Current account balance | 3.2 | -1.5 | -4.5 | -3.0 | -2.6 | -2.3 |
| FDI, net | -0.9 | -2.5 | -1.3 | -1.0 | -1.1 | -1.1 |
| Total external debt | 27.2 | 27.0 | 27.5 | 27.5 | 27.1 | 26.5 |
| Gross reserves | | | | | | |
| Gross reserves (US$ billions) | 110.1 | 108.8 | 96.1 | 98.1 | 93.4 | 89.4 |
| Gross reserves (percent of short-term debt, remaining maturity) | 478.4 | 512.3 | 381.3 | 351.0 | 372.3 | 332.0 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 361.8 | 394.1 | 404.3 | 434.9 | 471.8 | 510.3 |
| Nominal GDP per capita (US$) | 3,326 | 3,576 | 3,624 | 3,853 | 4,133 | 4,423 |
| GDP (in billions of pesos) | 17,952 | 19,411 | 22,025 | 24,312 | 26,565 | 28,934 |
| Real effective exchange rate (2010=100) | 111.3 | 111.1 | 109.3 | … | … | … |
| Peso per U.S. dollar (period average) | 49.6 | 49.3 | 54.5 | … | … | … |

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

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

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

## Table 2. Philippines: National Government Cash Accounts, 2020–25

(In percent of GDP, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 Est. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|
| Revenue and grants | 15.9 | 15.5 | 16.1 | 15.7 | 16.4 | 16.7 |
| Tax revenue | 14.0 | 14.1 | 14.6 | 14.3 | 15.0 | 15.3 |
| Net income and profits | 5.8 | 5.4 | 5.6 | 5.5 | 5.6 | 5.6 |
| Excises | 2.4 | 2.5 | 2.3 | 2.5 | 2.8 | 3.0 |
| VAT | 3.7 | 3.9 | 4.6 | 4.3 | 4.6 | 4.7 |
| Tariffs | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Other 1/ | 1.7 | 1.9 | 1.6 | 1.6 | 1.6 | 1.7 |
| Nontax revenue | 2.0 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 |
| Expenditure | 23.4 | 23.8 | 23.3 | 21.4 | 21.4 | 21.3 |
| Current expenditures | 19.6 | 19.1 | 18.6 | 17.2 | 16.9 | 16.9 |
| Compensation of employees | 6.6 | 6.6 | 6.3 | 6.0 | 6.3 | 6.0 |
| Use of goods and services | 4.9 | 4.5 | 4.0 | 3.8 | 3.3 | 3.2 |
| Grants | 4.5 | 4.6 | 5.0 | 3.9 | 3.8 | 4.1 |
| Subsidies | 1.3 | 1.0 | 0.9 | 0.9 | 0.7 | 0.7 |
| Interest | 2.1 | 2.2 | 2.3 | 2.5 | 2.8 | 2.9 |
| Other expenses | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Capital expenditure | 3.8 | 4.6 | 4.6 | 4.3 | 4.4 | 4.5 |
| Balance | -7.4 | -8.3 | -7.2 | -5.7 | -5.0 | -4.6 |
| Financing | 7.4 | 8.3 | 7.2 | 5.7 | 5.0 | 4.6 |
| External financing (net) | 3.3 | 1.7 | 1.8 | 2.4 | 1.6 | 1.2 |
| Domestic financing (net) | 8.7 | 7.6 | 4.7 | 3.5 | 3.5 | 3.5 |
| Change in cash (negative=accumulation) | -4.4 | -0.7 | 0.9 | 0.0 | 0.0 | 0.0 |
| Privatization | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity | -0.1 | -0.2 | -0.1 | 0.0 | 0.0 | 0.0 |
| Net lending | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Memorandum items: | | | | | | |
| Cyclically-adjusted primary balance 2/ | -3.5 | -5.3 | -5.0 | -3.2 | -2.2 | -1.7 |
| Structural primary balance 2/ | -3.5 | -5.2 | -5.1 | -3.4 | -2.4 | -2.0 |
| Gross financing requirement 3/ | 13.4 | 17.2 | 14.2 | 13.1 | 11.9 | 11.6 |
| National government gross debt 4/ | 54.6 | 60.4 | 60.9 | 61.1 | 61.1 | 60.9 |
| Domestic | 37.3 | 42.1 | 41.8 | 41.4 | 41.3 | 41.5 |
| External | 17.3 | 18.3 | 19.1 | 19.7 | 19.8 | 19.5 |
| GDP (in billions of peso) | 17,952 | 19,411 | 22,025 | 24,312 | 26,565 | 28,934 |

Sources: Philippine authorities; and IMF staff projections.

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

2/ In percent of potential GDP. Compared to the cyclically-adjusted balance, the structural balance also controls for the effect of cyclical fluctuations of the peso on revenue.

3/ Defined as the sum of deficit, amortization of medium- and long-term debt, and the stock of outstanding short-term debt.

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

## Table 3. Philippines: General Government Operations, 2020–25 1/

(In percent of GDP, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 Est. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|
| Revenue | 20.4 | 21.0 | 20.4 | 20.0 | 20.7 | 21.2 |
| Taxes | 15.0 | 15.1 | 15.6 | 15.2 | 15.9 | 16.3 |
| Taxes on income, profits, and capital gains | 5.8 | 5.4 | 5.6 | 5.5 | 5.6 | 5.6 |
| Taxes on goods and services | 7.4 | 7.6 | 8.0 | 7.7 | 8.4 | 8.7 |
| Taxes on international trade and transactions | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| Taxes not elsewhere classified | 1.4 | 1.6 | 1.5 | 1.5 | 1.5 | 1.6 |
| Social contributions | 2.8 | 3.8 | 2.8 | 2.8 | 2.8 | 2.9 |
| Grants | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other revenue | 2.6 | 2.1 | 2.1 | 2.0 | 2.0 | 2.0 |
| Total expenditure | 25.9 | 27.2 | 25.9 | 24.8 | 24.9 | 25.0 |
| Expense | 21.7 | 22.0 | 20.6 | 20.1 | 20.0 | 20.0 |
| Compensation of employees 2/ | 6.6 | 6.6 | 6.3 | 6.0 | 6.3 | 6.0 |
| Use of goods and services 2/ | 4.9 | 4.5 | 4.0 | 3.8 | 3.3 | 3.2 |
| Interest 2/ | 1.8 | 1.8 | 2.0 | 2.2 | 2.5 | 2.6 |
| Social security benefits | 2.3 | 3.3 | 2.4 | 2.5 | 2.6 | 2.8 |
| Expense not elsewhere classified 3/ | 6.0 | 5.8 | 5.9 | 5.5 | 5.3 | 5.5 |
| Net acquisition of nonfinancial assets | 4.3 | 5.2 | 5.3 | 4.8 | 4.9 | 5.0 |
| Net lending/borrowing | -5.5 | -6.2 | -5.5 | -4.8 | -4.2 | -3.8 |
| Memorandum items: | | | | | | |
| Primary balance | -3.7 | -4.4 | -3.5 | -2.6 | -1.8 | -1.3 |
| General government gross debt 4/ | 51.6 | 57.0 | 57.4 | 57.5 | 57.6 | 57.4 |
| Domestic | 34.4 | 38.7 | 38.3 | 37.8 | 37.8 | 37.9 |
| Foreign | 17.3 | 18.3 | 19.1 | 19.7 | 19.8 | 19.5 |
| GDP (in billions of peso) | 17,952 | 19,411 | 22,025 | 24,312 | 26,565 | 28,934 |

Sources: Philippine authorities; and IMF staff projections.

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

2/ National government only. The expense items related to social security institutions and local governments included under expense not elsewhere classified.

3/ Includes subsidies and expenditure by the LGUs.

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

## Table 4. Philippines: Depository Corporation Survey, 2018–23 1/

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

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023: Q2 |
|---|---|---|---|---|---|---|
| Total | | | | | | |
| Net foreign assets | 4,461 | 4,858 | 6,096 | 6,493 | 6,265 | 6,339 |
| Net domestic assets | 9,149 | 10,092 | 10,149 | 11,048 | 12,647 | 12,588 |
| Net claims on nonfinancial public sector | 2,249 | 2,711 | 3,444 | 4,145 | 4,967 | 5,038 |
| Claims on private sector | 8,687 | 9,363 | 9,341 | 9,694 | 10,759 | 10,879 |
| Net claims on other financial corporations | 1,084 | 1,192 | 1,101 | 1,183 | 1,214 | 1,200 |
| Broad money | 13,610 | 14,950 | 16,244 | 17,541 | 18,913 | 18,927 |
| National currency | 11,643 | 12,976 | 14,222 | 15,343 | 16,381 | 16,350 |
| Foreign currency | 1,968 | 1,974 | 2,023 | 2,197 | 2,532 | 2,577 |
| Bangko Sentral ng Pilipinas | | | | | | |
| Net foreign assets | 4,089 | 4,399 | 5,303 | 5,574 | 5,384 | 5,517 |
| Net domestic assets | -746 | -1,157 | -1,901 | -1,976 | -1,603 | -1,911 |
| Claims on private sector | 0 | 0 | 0 | 0 | 0 | 0 |
| Net claims on financial corporations | -231 | -734 | -1,910 | -1,867 | -1,788 | -1,533 |
| Monetary base | 3,338 | 3,238 | 3,402 | 3,599 | 3,781 | 3,604 |
| Currency in circulation | 1,490 | 1,679 | 2,039 | 2,176 | 2,337 | 2,184 |
| Other depository corporations liabilities | 1,847 | 1,559 | 1,363 | 1,422 | 1,443 | 1,420 |
| Other depository corporations | | | | | | |
| Net foreign assets | 372 | 459 | 793 | 919 | 881 | 822 |
| Net domestic assets | 12,000 | 13,091 | 13,720 | 14,745 | 16,011 | 16,175 |
| Net claims on nonfinancial public sector | 2,034 | 2,478 | 2,698 | 3,424 | 3,900 | 4,514 |
| Claims on private sector | 8,687 | 9,363 | 9,341 | 9,694 | 10,759 | 10,879 |
| Net claims on financial corporations | 3,424 | 3,771 | 4,614 | 4,669 | 4,466 | 4,151 |
| Memorandum items: | | | | | | |
| Broad money (percent change, year-on-year) | 9.0 | 9.8 | 8.7 | 8.0 | 7.8 | 6.1 |
| Claims on private sector (percent change, year-on-year) | 15.1 | 7.8 | -0.2 | 3.8 | 11.0 | 7.9 |
| Broad money (in percent of GDP) | 74.5 | 76.6 | 90.5 | 90.4 | 85.9 | 77.8 |
| Claims on private sector (in percent of GDP) | 47.6 | 48.0 | 52.0 | 49.9 | 48.9 | 44.7 |
| Nominal GDP, annual | 18,265 | 19,518 | 17,952 | 19,411 | 22,025 | 24,312 |

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

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

## Table 5. Philippines: Balance of Payments, 2020–25

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

| | 2020 | 2021 | 2022 | 2023 Est. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|
| Current account balance | 11.6 | -5.9 | -18.1 | -12.9 | -12.2 | -11.6 |
| Trade balance of goods and services | -19.9 | -38.8 | -53.8 | -46.9 | -48.8 | -50.4 |
| Goods | -33.8 | -52.8 | -69.7 | -69.5 | -73.3 | -77.7 |
| Exports, f.o.b. | 48.2 | 54.2 | 57.7 | 54.9 | 60.7 | 64.7 |
| Imports, f.o.b. | 82.0 | 107.0 | 127.4 | 124.4 | 134.0 | 142.4 |
| Services | 13.9 | 14.0 | 15.9 | 22.6 | 24.5 | 27.3 |
| Receipts | 31.8 | 33.6 | 41.1 | 49.8 | 54.5 | 60.5 |
| Payments | 18.0 | 19.5 | 25.2 | 27.2 | 30.0 | 33.2 |
| Primary income, net | 4.1 | 3.3 | 5.2 | 2.5 | 4.0 | 5.2 |
| Receipts, of which: | 11.6 | 11.8 | 13.1 | 14.6 | 16.5 | 18.1 |
| Compensation of employees | 8.5 | 8.8 | 9.1 | 9.5 | 10.1 | 10.8 |
| Payments | 7.5 | 8.5 | 7.9 | 12.1 | 12.5 | 12.9 |
| Secondary income, net | 27.4 | 29.5 | 30.5 | 31.5 | 32.6 | 33.6 |
| Receipts, of which: | 28.2 | 30.5 | 31.2 | 32.4 | 33.6 | 34.6 |
| Workers' remittances | 25.6 | 27.0 | 28.0 | 29.1 | 30.1 | 31.0 |
| Payments | 0.9 | 1.0 | 0.8 | 0.9 | 1.0 | 1.0 |
| Capital account | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 |
| Financial account | -6.9 | -6.4 | -12.9 | -15.1 | -8.0 | -8.0 |
| Direct investment | -3.3 | -9.7 | -5.4 | -4.3 | -5.0 | -5.6 |
| Portfolio investment | -1.7 | 10.2 | -1.3 | -2.1 | 1.0 | 0.9 |
| Financial derivatives | -0.2 | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 |
| Other investment | -1.8 | -7.0 | -6.2 | -8.6 | -4.0 | -3.2 |
| Errors and omissions | -2.5 | 0.8 | -2.0 | -0.9 | -0.9 | -0.9 |
| Overall balance | 16.0 | 1.3 | -7.3 | 1.3 | -5.0 | -4.5 |
| Memorandum items: | | | | | | |
| Nominal GDP (US$ billions) | 362 | 394 | 404 | 435 | 472 | 510 |
| Current account (in percent of GDP) | 3.2 | -1.5 | -4.5 | -3.0 | -2.6 | -2.3 |
| Short-term debt (original maturity) | 14.2 | 15.1 | 16.6 | 18.1 | 19.5 | 20.8 |
| Short-term debt (residual maturity) | 23.0 | 21.2 | 25.2 | 27.9 | 25.1 | 26.9 |
| Gross reserves | 110.1 | 108.8 | 96.1 | 98.1 | 93.4 | 89.4 |
| External debt (US$ billions) | 98.5 | 106.4 | 111.3 | 119.7 | 127.8 | 135.3 |
| External debt (in percent of GDP) | 27.2 | 27.0 | 27.5 | 27.5 | 27.1 | 26.5 |

Sources: Philippine authorities; and IMF staff projections.

## Table 6. Philippines: Medium-Term Outlook, 2022–28

(In percent of GDP, unless otherwise indicated)

| | 2022 | 2023 Est. | 2024 Proj. | 2025 Proj. | 2026 Proj. | 2027 Proj. | 2028 Proj. |
|---|---|---|---|---|---|---|---|
| GDP and prices | | | | | | | |
| Real GDP (percent change) | 7.6 | 5.3 | 6.0 | 6.1 | 6.2 | 6.3 | 6.4 |
| CPI (percent change, annual average) | 5.8 | 6.0 | 3.7 | 3.0 | 3.0 | 3.0 | 3.0 |
| GDP by expenditure | | | | | | | |
| Consumption (percent change) | 7.7 | 4.0 | 5.7 | 6.5 | 5.5 | 6.4 | 6.4 |
| Private | 8.3 | 5.0 | 6.2 | 6.9 | 6.2 | 6.9 | 6.5 |
| Public | 4.9 | -0.4 | 3.0 | 4.3 | 1.8 | 3.8 | 5.3 |
| Gross fixed investment (percent change) | 9.7 | 7.7 | 11.2 | 10.8 | 12.3 | 10.4 | 10.5 |
| Net exports (contribution to growth) | -2.2 | 0.0 | -1.5 | -1.8 | -1.7 | -2.0 | -2.0 |
| Investment and saving | | | | | | | |
| Gross investment | 24.7 | 23.2 | 24.4 | 26.0 | 27.4 | 28.4 | 29.5 |
| Private | 19.2 | 18.2 | 19.3 | 20.8 | 21.9 | 22.9 | 23.9 |
| Public | 5.5 | 5.0 | 5.1 | 5.2 | 5.5 | 5.6 | 5.6 |
| National saving | 20.2 | 20.2 | 21.9 | 23.7 | 25.5 | 26.8 | 28.0 |
| Private | 19.6 | 19.6 | 20.4 | 21.8 | 22.9 | 23.3 | 24.2 |
| Public | 0.6 | 0.7 | 1.4 | 1.9 | 2.6 | 3.4 | 3.8 |
| Public finances | | | | | | | |
| National government balance | -7.2 | -5.7 | -5.0 | -4.6 | -4.1 | -3.3 | -3.0 |
| Total revenue | 16.1 | 15.7 | 16.4 | 16.7 | 17.0 | 17.3 | 17.4 |
| Total expenditure and net lending | 23.3 | 21.4 | 21.4 | 21.3 | 21.1 | 20.6 | 20.4 |
| National government gross debt | 60.9 | 61.1 | 61.1 | 60.9 | 60.3 | 58.8 | 56.9 |
| General government gross debt | 57.4 | 57.5 | 57.6 | 57.4 | 56.7 | 55.2 | 53.3 |
| Current account | -4.5 | -3.0 | -2.6 | -2.3 | -1.9 | -1.7 | -1.5 |
| Reserves (US$ billions) | 96.1 | 98.1 | 93.4 | 89.4 | 87.1 | 86.1 | 84.9 |
| Reserves/short-term liabilities 1/ | 381.3 | 351.0 | 372.3 | 332.0 | 321.4 | 301.3 | 284.0 |
| Total external debt | 27.5 | 27.5 | 27.1 | 26.5 | 25.9 | 25.3 | 24.3 |
| Monetary sector | | | | | | | |
| Claims on private sector 2/ | 48.9 | 47.7 | 48.3 | 48.6 | 49.2 | 49.8 | 50.7 |
| Claims on private sector (percent change) 2/ | 11.0 | 7.7 | 10.6 | 9.7 | 10.3 | 10.1 | 11.2 |

Sources: Philippine authorities; and IMF staff projections.

1/ Remaining maturity basis.

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

## Table 7. Philippines: Financial Soundness Indicators, 2018–23:Q1

(In percent)

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023:Q1 |
|---|---|---|---|---|---|---|
| Capital adequacy | | | | | | |
| Regulatory capital to risk-weighted assets | 14.9 | 15.2 | 16.3 | 16.5 | 15.3 | 15.8 |
| Regulatory Tier-1 capital to risk-weighted assets | 13.3 | 14.0 | 15.3 | 15.5 | 14.4 | 14.9 |
| Capital to total assets | 9.3 | 9.5 | 9.7 | 9.7 | 9.0 | 9.3 |
| Nonperforming loans net of provisions to capital | 3.6 | 4.9 | 6.6 | 7.7 | 4.0 | 4.4 |
| Net open position in foreign exchange to capital | 4.7 | 5.8 | 3.7 | 3.6 | 4.1 | 8.2 |
| Gross asset position in financial derivatives to capital | 1.8 | 1.3 | 1.6 | 1.5 | 2.9 | 2.1 |
| Asset quality | | | | | | |
| Nonperforming loans to total gross loans | 1.7 | 2.0 | 3.5 | 4.0 | 3.1 | 3.3 |
| Specific provisions to nonperforming loans | 63.2 | 58.0 | 65.9 | 64.0 | 78.1 | 75.8 |
| Earnings and profitability | | | | | | |
| Return on assets | 1.3 | 1.5 | 1.1 | 1.4 | 2.1 | 1.8 |
| Return on equity | 10.0 | 11.0 | 7.6 | 10.4 | 15.4 | 13.9 |
| Interest margin to gross income | 75.2 | 74.0 | 73.9 | 73.1 | 75.2 | 76.1 |
| Trading income to gross income | 3.2 | 7.8 | 12.1 | 4.4 | 2.2 | 3.1 |
| Noninterest expenses to gross income | 62.2 | 58.7 | 52.9 | 55.2 | 54.8 | 53.4 |
| Personnel expenses to noninterest expenses | 35.4 | 34.5 | 35.6 | 36.1 | 34.9 | 33.6 |
| Liquidity and funding | | | | | | |
| Liquid assets to total assets | 32.5 | 32.0 | 35.3 | 31.6 | 29.8 | 28.2 |
| Liquid assets to short-term liabilities | 50.7 | 48.8 | 53.5 | 47.7 | 44.1 | 42.1 |
| Non-interbank loans to customer deposits | 0.8 | 0.9 | 0.8 | 0.7 | 0.7 | 0.7 |
| Sensitivity to market risk | | | | | | |
| Foreign currency denominated loans to total loans | 10.9 | 10.7 | 10.6 | 11.0 | 10.2 | 9.6 |
| Foreign currency denominated liabilities to total liabilities | 20.2 | 19.7 | 17.6 | 17.3 | 19.8 | 20.1 |
| Real estate markets | | | | | | |
| Residential real estate loans to total loans | 7.1 | 7.3 | 8.0 | 8.2 | 7.8 | 7.9 |
| Commercial real estate loans to total loans | 12.3 | 13.2 | 14.0 | 14.3 | 13.5 | 13.6 |

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

## Table 8. Philippines: Indicators of External Vulnerability, 2020–25

(In percent of GDP, unless otherwise indicated)

| | 2020 | 2021 | 2022 | 2023 Est. | 2024 Proj. | 2025 Proj. |
|---|---|---|---|---|---|---|
| External indicators (including external liquidity) | | | | | | |
| Gross international reserves (US$ billions, end of period) | 110.1 | 108.8 | 96.1 | 98.1 | 93.4 | 89.4 |
| Maturing short-term debt (US$ billions) | 14.2 | 15.1 | 16.6 | 18.1 | 19.5 | 20.8 |
| Amortization of medium and long-term debt (US$ billions) | 4.9 | 7.0 | 4.8 | 8.3 | 9.9 | 5.6 |
| Net FDI inflows (in BPM6, US$ billions) | -3.3 | -9.7 | -5.4 | -4.3 | -5.0 | -5.6 |
| FX deposits residents (US$ billions) | 45.6 | 46.9 | 48.2 | … | … | … |
| Total gross external debt | 27.2 | 27.0 | 27.5 | 27.5 | 27.1 | 26.5 |
| Fiscal indicators | | | | | | |
| National government overall balance | -7.4 | -8.3 | -7.2 | -5.7 | -5.0 | -4.6 |
| National government cyclically-adjusted primary balance | -3.5 | -5.3 | -5.0 | -3.2 | -2.2 | -1.7 |
| Net debt denominated in FX or linked to the exchange rate (in percent of total) | 31.6 | 30.9 | 32.5 | 33.6 | 33.9 | 33.7 |
| Short-term net general government debt (original maturity, in percent of total) | 9.7 | 6.8 | 3.1 | 3.3 | 3.5 | 3.7 |
| Amortization of total general government debt | 8.7 | 8.0 | 5.2 | 7.5 | 6.9 | 7.0 |

Sources: Philippine authorities; and IMF staff estimates.

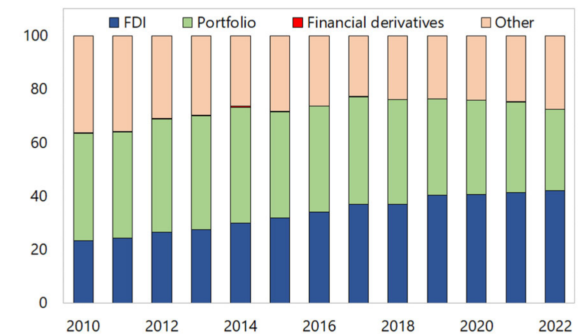
# Annex I. External Sector Assessment[1]

*The Philippines' external position in 2022 was moderately weaker than the level implied by fundamentals and desirable policies. In the medium term, exchange rate flexibility and structural policies should help contain the CA deficit, keeping it in line with its norm. External financing appears sustainable. The assessment is subject to uncertainty around the commodity prices and global financial conditions, and geoeconomic fragmentation.*

## Foreign Asset and Liability Position

**1.** *Background*. The net international investment position (NIIP) widened to -9.9 percent of GDP in 2022 from -7.2 percent of GDP in 2021. The reduction is explained by the widened current account deficit and drops in foreign reserves. Foreign reserves held by the BSP accounted for about 42 percent of total external assets in 2022 which has fallen from 45 percent in 2021, reflecting financing current account deficit and smoothing the exchange rate volatility. Key components of external liabilities included FDI (28 percent of GDP) and portfolio investment (20.3 percent of GDP). Total external debt slightly increased to 27.5 percent of GDP in 2022 from 27.0 percent of GDP in 2021.

**NIIP Liabilities Composition**
(In percent)



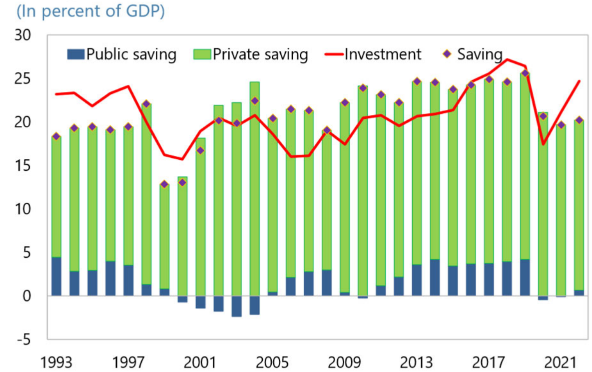

Sources: Haver Analytics; and IMF staff estimates.

**2.** *Assessment*. The composition of the NIIP and the relatively low level of external debt indicate that the Philippines' external position is sustainable and entails relatively low vulnerabilities. FX reserves are substantially larger than short-term external liabilities (26.2 percent to FX reserves), and FDI accounts for a sizeable share of liabilities (41.9 percent of total liabilities).

## Current Account

**3.** *Background*. The CA deficit widened to 4.5 percent of GDP in 2022 from 1.5 percent of GDP in 2021. The decline in the current account balance in 2022 reflects elevated commodity prices and pent-up demands associating increase in imports. From a saving-investment (S-I) perspective, the current account deficit was driven by a domestic demand-led recovery, while public sector started fiscal consolidation with

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




Sources: Philippines Statistics Authority; and IMF staff estimates.

[1] Prepared by Nuri Baek (APD).

rewinding pandemic-related measures. However, the CA deficit is expected to narrow to 3.0 percent of GDP in 2023, supported by strong recovery in the service sector including tourism and less payment for commodity imports.

**4.** *Assessment.* The external position in 2022 was moderately weaker than the level implied by medium-term fundamentals and desirable policies. The External Balance Assessment (EBA) model estimates a cyclically adjusted CA of −3.5 percent and a CA norm of -1.3 percent of GDP in 2022. With an adjustor for COVID-19 (0.4 percent of GDP attributed to transportation), staff estimates a CA gap of -1.7 percent of GDP for 2022. Staff's estimated CA gap is lower than in the previous year (-0.2 percent of GDP).

**Model Estimates for 2022**
(In percent of GDP)

| | CA Model | REER Level Model | REER Index Model |
|---|---|---|---|
| **CA Actual** | -4.5 | | |
| Cyclical contributions (-) | 1.0 | | |
| **Adjusted CA** | -3.5 | | |
| **CA Norm** (from model) | -1.3 | | |
| **CA Gap** (from model) | -2.1 | | |
| Policy Gap | -0.2 | | |
| **Covid-19 adjustment** (+) /1 | 0.4 | | |
| **Staff Gap** | -1.7 | | |
| **Elasticity** | -0.33 | | |
| **REER Gap (percent)** | 5 | 18 | 8 |

Source: IMF staff estimates.

1/ Additional adjustment for transport is 0.4.

## Real Exchange Rate

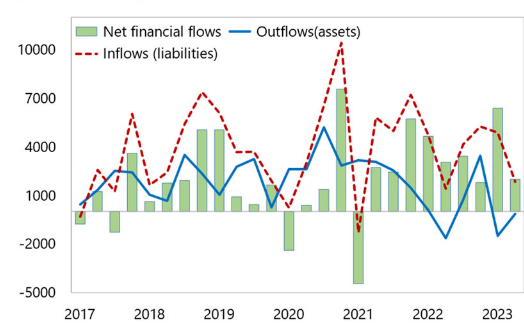
**5.** *Background*. The peso depreciated by 1.7 percent in real effective terms in 2022. The depreciation reflects the large deficit in the current account balance and capital outflows as global financial conditions tightened. Despite the large depreciation of the peso relative to the US dollar (9.6 percent), REER depreciation was limited due to major trading partners' high inflation.

**6.** *Assessment*. The staff CA gap estimate of -1.7 percent of GDP implies a REER gap of 5 percent (applying an estimated elasticity of 0.33). The REER index and level models point to 2022 REER gaps of 18 percent and 8 percent, respectively.

## Financial Accounts

**7.** *Background*. Net financial flows increased to 3.2 percent of GDP in 2022 from 1.6 percent of GDP in 2021. The increase was due to net inflows of debt securities in foreign portfolio investment and residents' repayment of bank loans, despite slowdown of net FDI inflows at 1.3 percent of GDP in 2022 from 2.5 percent of GDP in 2021. Inflows of debt securities increased to 0.4 percent of GDP in 2022 from -0.4 percent of GDP in 2021 due to increase in general government debt.

**Financial Account**
(In millions of US$)



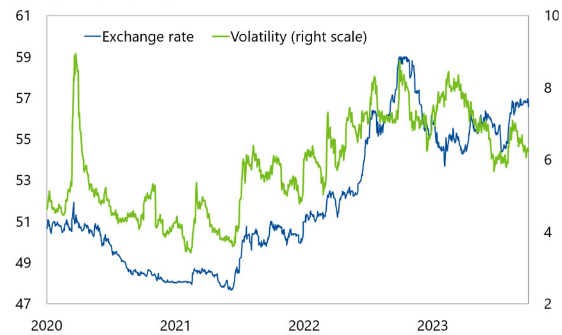

Sources: Haver Anaytics; and IMF staff estimates.

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

## FX Intervention and Reserves Level

**9.** *Background*. The de facto exchange rate arrangement is classified as floating. The value of the Philippine peso is determined in the interbank foreign exchange market. The BSP intervenes in the spot and forward markets to smooth excessive exchange rate volatility. Intervention data are not published. The peso depreciated in 2022, reflecting a widening of the current account deficit, and broad dollar strength following monetary policy tightening in major advanced economies. The Gross international reserves (GIR) declined to US$96.1 billion (23.8 percent of GDP) at end-2022 from US$108.8 at the end-2021.

Exchange Rate and Volatility
(Philippine peso/US$)




Source: Bloomberg L.P.

**10.** *Assessment*. Reserves are adequate. Reserves as of end-2022 were about 7.6 months of imports of goods and services, or about 196 percent of the IMF's reserve adequacy metric.

# Annex II. On the Use of a Quarterly Projection Model (QPM) for Forecasting and Policy Analysis in the Philippines[1]

1. **The Philippine authorities have come a long way in improving the application of macroeconomic models in policy analysis**. As part of its forecasting and policy analysis system (FPAS), the BSP originally employed a multi-equation econometric model as its core medium-term forecasting model which supported the remarkable disinflation process in the 2000s. However, some of its assumptions made it unsuitable for policy analysis during times of loosening or tightening monetary policy in the post-GFC period. At the request of the BSP, Fund TA began modernizing the FPAS in January 2021 by reviewing the structure and features of the existing semi-structural *quarterly projection model (QPM)*[2]. The QPM was designed to offer forward-looking baseline and risk scenario projections in a model with endogenous monetary policy. The original framework was extended multiple times to incorporate richer disaggregation and more policy interactions, for example for fiscal policy and macrofinancial linkages, and also to include additional tools such as foreign exchange interventions (FXI).

2. **The full operationalization of the QPM will represent a major milestone for the BSP**. By incorporating a wider range of channels and mechanisms, the model has enhanced policymakers' ability to evaluate the potential impact of policy decisions across different policy domains in promoting price and macro-financial stability. Senior managers and policymakers see the integrated approach as particularly valuable in an environment characterized by uncertainty, as they seek to navigate a complex macro-financial landscape. Going forward, formal adoption of the QPM provides additional scope to develop and institutionalize coordination among monetary, financial supervision, and macroprudential sectors.

3. **The QPM and the quantitative model for the integrated policy framework ("QIPF") can be used as complementary inputs into central banks' monetary policy decisions**. Semi-structural models like the QPM are easy to fit to country characteristics but rely in part on reduced-form relationships. Full DSGE models like the QIPF, on the other hand, offer a richer and more micro-founded structure but require a higher level of technical expertise to be run on a day-to-day basis. This makes them suitable for studying the impact of bigger structural shifts and welfare-based analysis, while semi-structural models like the QPM may be more useful whenever fully accounting for theory is infeasible, either because of time constraints or absence of good, theoretical frameworks. In terms of capacity development, adopting a semi-structural framework can improve a central bank's policy process and is typically easier to implement than utilizing a fully-fledged DSGE model, especially at the initial stages of utilizing model-based forecasts for decision-making.

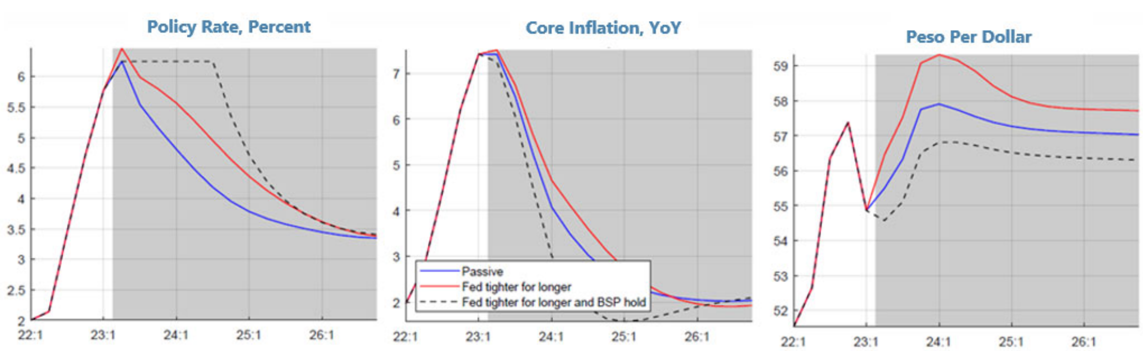
[1] Prepared by Tristan Hennig (APD) with inputs from Philippe Karam, Daniel Baksa, and Iaroslav Miller (all ICD).

[2] The original QPM or PAMPh v1.0 (Policy Analysis Model for the Philippines) was developed with assistance from the Global Projections Model Network (GPMN). Prior to PAMPh v1.0, a smaller gap model with endogenous policy rate was used internally by the BSP.

**4. The IMF country team maintains their own version of the QPM**. This allows the team to produce baseline forecasts and risk scenarios as needed for regular surveillance. The QPM complements the existing spreadsheet-based macroframework by offering a more rigorous macroeconomic model for forecasting. It also allows the country desk to analyze the impact of different policy responses to shocks in a theoretically consistent way and offers an integrated way of thinking about policy responses and trade-offs between different tools. In the future, forecasts produced by the QPM will be combined with those from the existing macroframework through the IMFE platform.

**5. The QPM was used extensively for policy discussions with the authorities during the 2023 staff visit**. With both the country team and the authorities familiar with the model following extensive CD engagement, the QPM facilitated a discussion of baseline projections and risk scenarios. Policy discussions during the staff visit occurred against the backdrop of a surge in inflation and the federal reserve's abrupt monetary tightening campaign in 2022 which had led to a sharp depreciation of the Peso. Any overshooting of the exchange rate was seen by the authorities as complicating the trade-off with higher policy rates as an important ingredient to maintain a healthy interest rate differential with the U.S. and FXI to smooth excessive volatility or abrupt changes in the exchange rate. Policy discussions therefore focused on the future path of US monetary policy and its implications for the Philippine authorities. Three scenarios were discussed– one in which the BSP passively follows the model's optimal path, one in which the Federal Reserve would not cut rates before end-2024 and one in which the BSP copies the higher-for-longer strategy. Figure 1 shows the simulated core inflation and exchange rate paths. Centering the discussions around model results helped convey the message that monetary policy would have to stay tighter for longer in the Philippines.

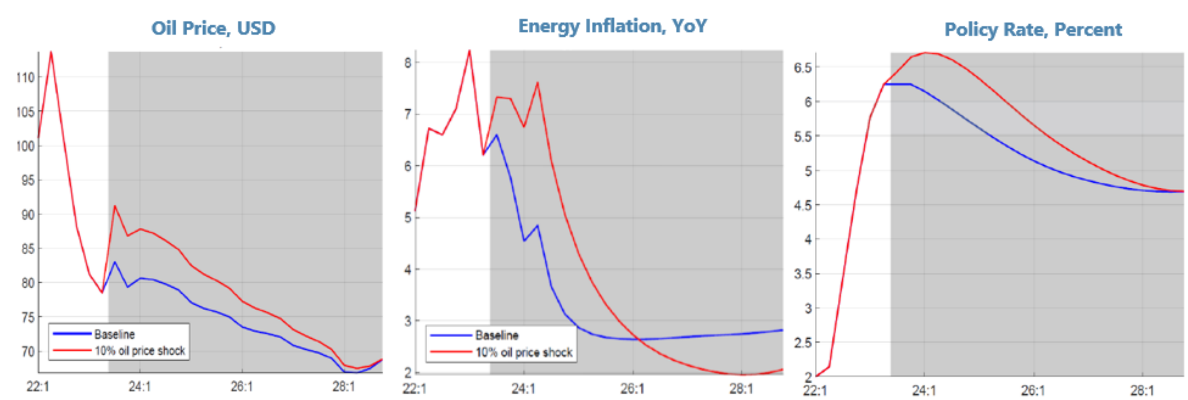
**Figure 1. Philippines: US Monetary Policy Shock (Staff Visit)**




**6. Discussions during the 2023 Article IV consultation made use of closer integration between the QPM and QIPF**. One of three risk scenarios that were studied at the time of the mission was a positive shock to wages motivated by a proposal submitted to Congress entailing a substantial raise in the minimum wage amid continued improvements in the Philippines' labor market conditions. As the QPM does not feature a labor market block, the QIPF was used to provide estimates for the impact of the wage shock on domestic demand and inflation. The QPM then served as a useful tool to study the appropriate monetary policy response to the minimum wage shock (Figure 2a). The QPM was also used to analyze the impact of an abrupt tightening of global financial conditions as well as a sustained oil price shock (Figure 2b). The authorities highly appreciated the model-based discussion and requested a more in-depth comparison between the QPM and the QIPF which future work will focus on.

**Figure 2a. Philippines: Minimum Wage Shock (Article IV)**


**Figure 2b. Philippines: Oil Price Shock (Article IV)**



# Annex III. Risk Assessment Matrix[1]

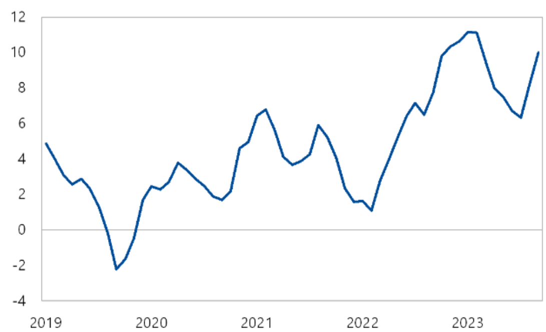
| | Source of Risks | Likelihood | Expected Impact | Policy Recommendation |
|---|---|---|---|---|
| Global | **Intensification of regional conflicts.** Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows. | High | Medium. Philippines has little direct trade with Ukraine or Russia. However, further sanctions or disruptions resulting in higher commodity prices and tighter global financial conditions could adversely affect regional and trading partner growth, raising risks to Philippine's economic activity, inflation, trade, and capital flows. | Use available fiscal space effectively to provide targeted support if domestic demand weakens significantly. Provide targeted support to viable firms, while facilitating the exit of unviable ones. Ensure banking sector remains stable and markets remain liquid, while working to increase financial sector resilience. |
| | **Commodity price volatility.** A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability. | High | Medium. Increased pressure on CPI inflation may risk destabilizing inflation expectations and require a more aggressive monetary policy response. | Stand ready to further tighten monetary policy if inflation expectations show signs of becoming de-anchored and second round effects are increasing. Avoid subsidies and lowering taxes, instead provide targeted transfers to low- income households. |
| | **Abrupt global slowdown or recession**. Global and idiosyncratic risk factors combine to cause a sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and markets fragmentation causing sudden stops in EMDEs. **US**: Amid tight labor markets and/or commodity price shocks, inflation remains elevated, prompting the Fed to keep rates higher for longer and resulting in more abrupt financial, housing and commercial real estate market correction, and "hard landing". **Europe**: Intensifying fallout from the war in Ukraine, recurrent energy crisis and supply disruptions, and monetary tightening exacerbate economic downturns, and housing and commercial real estate market corrections. **China**: Sharper-than-expected slowdown in the property sector, unexpected fiscal tightening due to local government financing stress and decline in investment, and/or rising geopolitical tensions disrupt economic activity. | Medium | High. Lower GDP growth, due to weaker investment and exports; a decline in capital inflows, leading to currency depreciation and tighter domestic credit conditions; higher poverty rate. | Allow the exchange rate to act as a shock absorber while using foreign exchange intervention to counter disorderly market conditions that can unduly influence the overall outlook for inflation and dislodge the public's inflation expectations. Use available fiscal space effectively to provide targeted support. Ensure banking sector remains stable and markets remain liquid, while working to increase financial sector resilience. Provide targeted support to viable firms, while facilitating the exit of unviable ones. |
| | **Systemic financial instability.** Sharp swings in real interest rates, risk premia, and assets repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing markets dislocations and adverse cross-border spillovers. | Medium | Medium. An increase in capital outflows that lead to large exchange rate depreciation and volatility; tighter financial conditions; and upward pressures on inflation through exchange rate passthrough. | Markets should be kept liquid. The exchange rate should remain flexible, and market driven. Provided the monetary policy stance remains adequate to address inflation risks, and considering Philippines' shallow FX markets, the use of FXI may be appropriate under certain circumstances. |
| | **Deepening geoeconomic fragmentation.** Broader and deeper conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth. | High | Medium. Weaker exports; reduced FDI inflows; increased uncertainty leading to weaker investment. | Accelerate trade integration efforts within the ASEAN region and pursue new, high-quality regional trade agreements. Implement structural reforms to reduce trade costs, promote competition and financial deepening. Further progress on open trade policy (including lifting non-tariff barriers) and diversification of FDI source countries. |
| Domestic | **Persistently high domestic inflation.** Inflation remains higher for longer, due to larger-than-expected second-round effects, more persistent commodity price shocks, de-anchoring inflation expectations which requires a sharp monetary policy tightening and leads to a "hard landing". | High | High. Persistently high inflation can reduce policy credibility and macroeconomic stability, lead to capital outflows, a higher risk premium and a significant economic slowdown reflecting tighter monetary policy. | Tighten monetary policy to bring about a sustained reduction in actual inflation and use monetary policy communication, to influence inflation expectations. Accelerate reforms to reduce supply constraints, reduce trade restrictions to support monetary policy. |
| | **Deterioration in banks' asset quality and funding positions.** As forbearance measures are unwound, a weaker recovery can reveal weaknesses in the banking system asset quality and lead to lower credit provisioning. | Medium | Medium. Credit slowdown can hamper the recovery, and the associated uncertainty can lead to capital outflows and currency depreciation. | Potential capital adequacy issues should be recognized upfront. Provide liquidity and allow banks to use regulatory buffers. Provide targeted support to viable firms. Accelerate reforms on bank resolution and crisis management and maintain high provisioning. |
| | **Natural disasters.** Major natural disasters (e.g., typhoons, volcano eruptions and/or earthquakes) disrupt economic activity and affect sentiment, resulting in higher fiscal expenditure. | High | High. Disruption in economic activity in the affected region; poor agriculture production; damage to properties; and higher food inflation, with larger impact on low-income households in rural areas. | Targeted assistance to affected groups and sectors. If the economy slows significantly, provide relief to banks in affected regions, while monitoring credit risk. Prioritize public investment in disaster-resistant infrastructure and sustainable growth |

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly.

# Annex IV. Addressing Food Inflation and Productivity in the Philippines[1]

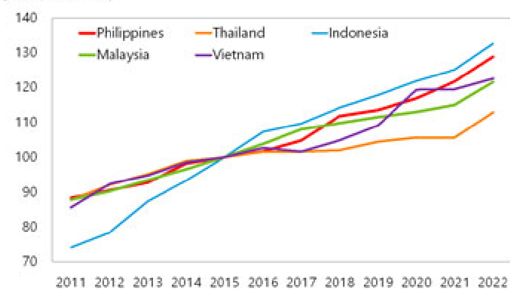
**1. Rising prices for food items have recently contributed to high inflationary pressures in the Philippines, with food inflation ranking second amongst ASEAN peers in 2021**. In 2022, domestic weather disturbances, global supply chain disruptions, and the impact of the Russia-Ukraine war set a series of direct and indirect supply shocks that pushed food prices further up. Existing structural inefficiencies and import restrictions contributed to soaring prices for basic items such as sugar and vegetables, with onion prices rising from around 70 pesos a kilo in April 2022 to as much as 700 pesos in December 2022. Rice inflation also soared to 17.8 percent in September 2023, marking the highest rate since March 2009. Compared to ASEAN peers, several challenges continue to hamper the potential of the country's agriculture: (a) low farm/labor productivity; (b) low access to credit and insurance, particularly among smallholder primary producers; (c) unsustainable farming practices and underutilized agro-forestry and blue economy potential; (d) weak export performance; (e) low investments in the Agriculture, Forestry, and Fisheries (AFF) sector; (f) inadequate infrastructure; (g) fragmentation of agricultural lands; and (h) high vulnerability to multidimensional shocks.

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




Sources: Philippines Statistic Authority via Haver; and IMF staff estimates.

**Consumer Price, Food and Non-Alcoholic Beverages 1/**
(Index, 2015=100)




Sources: Haver Analytics; and IMF staff estimates.
1/ Food, beverage, and tobacco for Indonesia; food and foodstuffs for Vietnam.

**2. Heightened concerns over price stability and social equity prompted monetary and fiscal policymakers to act**. In parallel to monetary policy tightening, the government targeted time-bound cash transfers to the 7.6 million poorest households and rolled out a fertilizer discount voucher program for farmers. Amid the hefty increase in rice prices, the administration introduced a temporary domestic rice cap. As outlined in Executive Order 39, the price cap sets the limits at 41 pesos per kilogram for regular-milled rice and 45 pesos per kilogram for well-milled rice, with the measures effective from September 5 to October 4, 2023. To mitigate the impact on small rice retailers and store owners affected by this policy, the government allocated 15,000 pesos in financial aid. In addition, the President approved the release of 12.1 billion pesos for the Rice Farmers Financial Assistance (RFFA) program to assist about 2.4 million small rice farmers, with the funding being sourced from the excess tariff collection generated from rice importations in 2022. To further support ongoing efforts, 705 million pesos, also from excess rice tariff collection, was allocated to

[1] Prepared by Hannah Lyn Go, Ragnar Gudmundsson, and Lara Mariele Marco (all APD).

the *Palayamanan* Plus (or Crop Diversification) Program for the distribution of conditional cash assistance to eligible rice farmers. For fiscal year 2023, the administration increased the Department of Agriculture's budget by 42.5 percent to ensure food security and enhance agricultural productivity. Longer-term measures as outlined in the Philippine Development Plan (2023-2028) focus on modernizing the agriculture and the agribusiness sector by expanding market access, improving resilience of AFF value chains, and strengthening agricultural institutions. Moreover, an Inter-Agency Committee on Inflation and Market Outlook (IAC-IMO) was formalized in May 2023,[2] tasked with identifying timely measures to keep inflation within the government's target, especially with regard to food and energy. The IAC-IMO's approach will include close monitoring of inflation drivers and external and internal shocks, assessment of the demand and supply of goods, and data-sharing among government agencies.

3. **Efforts to contain pressures stemming from high food prices should also focus on facilitating cheaper imports of food items by reducing tariff and non-tariff barriers, including those linked to phytosanitary restrictions**. In that regard, a game-changing reform was the 2019 Rice Tariffication Law (RTL), which liberalized trade by imposing tariffs in lieu of quantitative restrictions, and established a Rice Competitiveness Enhancement Fund (RCEF) to enable Filipino rice farmers to compete with their ASEAN peers. In addition to lowering retail prices of rice and generating savings for poor consumers, the RTL helped the government generate PHP46.6 billion in rice import duties in its first three years and continues to directly benefit rice farmers through assistance from the RCEF. Efforts to increase agricultural productivity should moreover focus on expanding long term public-private partnerships to attract investment and enable value chain development and upgrading. Consideration could also be given to promoting land consolidation through amending the Comprehensive Agrarian Reform Law that triggered fragmentation of agricultural lands and indirectly contributed to low agricultural productivity.

[2] The creation of the IAC-IMO was approved on March 7, 2023 by the President and it was formalized through Executive Order No. 28, s. 2023 on May 26, 2023.

# Annex V. Implementation of Main Recommendations of the 2022 Article IV Consultation

| Policies | 2022 Article IV Consultation Recommendations | Actions Since 2022 Article IV Consultation |
|---|---|---|
| **Monetary Policy** | Further monetary tightening may be needed to keep inflation expectations well anchored.<br><br>Improve BSP's communication and operational framework to reduce uncertainty and improve policy transmission. | The Bangko Sentral ng Pilipinas raised its policy rate to 6.5 percent, in line with staff recommendations. Staff assess that the monetary policy stance is now tight enough to bring inflation back to the target band by early next year, though the BSP should stand ready to continue hiking should upside risks to the inflation outlook materialize.<br><br>The BSP has shown a strong commitment to improving the operational framework and has received TA from the IMF Monetary and Capital Markets Department (MCM) on this topic. Several recommendations made last November have already been implemented (such as the change in the time of the RRP auction and the move to a variable rate RRP) and the BSP has concrete plans to work on the remaining recommendations. |
| **Financial Sector Policies** | Enhance the BSP's capacity to conduct financial stability risk assessment to support resilience.<br><br>Strengthen the bank resolution framework by start working on resolvability assessments and resolution plans for individual banks.<br><br>Enhance AML/CFT effectiveness, complete the action plan, and separately amend the bank secrecy law. | While the BSP conducts regular systemic risk analysis, data gaps remain.<br><br>The BSP has concrete plans to address MCM TA recommendations on the bank resolution framework, including by establishing a separate resolution section within the BSP and drafting a resolution manual.<br><br>The deadline to complete the FATF action plan by January 2023 was missed. While some progress has been made, more work needs to be done to leave the grey list (see main text). |
| **Fiscal Policy** | Enhance revenue mobilization to secure resources for the authorities' social and development plans.<br><br>Augment the MTFF with explicit fiscal anchor and a medium-term revenue strategy to support fiscal credibility and debt sustainability.<br><br>Improve expenditure control and efficiency to complement revenue measures.<br><br>Strengthen the oversight of GOCCs to contain fiscal risk. | The authorities are working with Congress to legislate several tax policies, which include the introduction of VAT on digital service providers (DSPs), P4, excise taxes on single-use plastics and junk food, increase in the excise taxes on premixed alcoholic, and sweetened beverages, the adjustment of the motor vehicle road user's tax, and the rationalization of the mining fiscal regime. Some of these tax measures are already in the advanced stages and with ongoing discussions in the Senate such as VAT on DSPs, and P4.<br><br>Fiscal consolidation is expected to continue in line with the targets identified in the MTFF.<br><br>The authorities are working to reform the MUP pension system and increase capacity for the LGUs to deliver public service. The Progressive Budgeting for Better and Modernized Governance, and the National Government Rightsizing Program will help institutionalize the implementation of key budget reform initiatives. They include the implementation of the cash budgeting system, and the digitalization of the PFM system.<br><br>The annual Fiscal Risks Statement has detailed analysis of key fiscal risks and the authorities are working to enhance the oversight of the GOCCs with help from Fund TA. |
| **Structural Policies** | Further efforts to reduce infrastructure and education gaps and improve competitiveness.<br><br>Better harness the benefits of the digital economy, and further progress in the digitalization of public services.<br><br>Establish an integrated climate change policy that include a carbon pricing scheme. | The authorities remain committed to reducing infrastructure gaps by targeting at least a 5 percent infrastructure disbursements-to-GDP ratio every year by implementing the flagship projects approved by the National Economic and Development Authority (NEDA) Board, including through PPPs. The Commission on Higher Education and the IT Business Process Association of the Philippines are exploring possible joint projects that aim to boost the digital skills of students.<br><br>The authorities are making progress on the digitalization of their financial management information systems, and the digitalization of tax registration, filing, and payment processes. They have submitted to Congress an E-governance Act formulating the E-Government Master Plan for the digitalization of government processes and frontline services.<br><br>The authorities are focusing on developing their National Adaptation Plan and NDC Implementation Plan in the context of 28$^{th}$ session of the Conference of the Parties (COP28), in addition to considering the introduction of a carbon pricing scheme with support from development partners. The Financial Sector Forum is also finalizing in partnership with stakeholders a local sustainable finance taxonomy which covers climate change and mitigation objectives. The authorities have expressed interest in applying the Debt-Investment-Growth and Natural Disasters (DIGNAD) toolkit to the Philippines to consider the benefits of resilient infrastructure investments. |

# Annex VI. Implementation of FSAP Recommendations[1]

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

| Recommendation | Timing |
| --- | --- |
| ***Macroprudential Policy and Systemic Risk Monitoring Framework*** | |
| Limit bank dividend distributions while downside risks remain high and be ready to take additional measures to strengthen banks' capital if the risks materialize to continue providing credit to the economy (FSCC members, BSP). | ST |
| ***Update**: Dividend prohibitions have been very limited and are handled on a case-by-case basis considering a bank's varied internal capital targets, stress testing results, and risk profile, among other factors. Banks applying for relief measures may be restricted from making dividend or other forms of profit distributions. This restriction automatically applies to banks that utilize their capital conservation buffers and may be imposed on banks that have reached their internal capital targets.[1] | |
| Enhance collaboration within the BSP to conduct essential macroprudential risk analyses, including macro scenario stress tests, and assure a balanced decision-making process (BSP). | MT |
| ***Update**: The approach taken for the macroprudential stress tests was discussed and approved at the level of the Financial Stability Policy Committee (FSPC) and the Financial Stability Coordination Council (FSCC). The approach embeds network modelling into the stress tests to account for nonlinearities that would impact banks and NFCs disproportionately. The credit risk component of macroprudential stress test (MaPST) has been completed. The BSP is currently working on the market risk and liquidity risk phases of the stress tests. | |
| Strengthen the influence of FSCC decisions by adding a comply-or-explain mechanism and providing sectoral regulators with a financial stability objective (FSCC members). | MT |
| ***Update**: Under the current legal framework, the Council does not have sufficient legal basis to implement a comply-or-explain mechanism. | |
| Expand macroprudential policy toolkit and establish operational procedures to set them in a more systemic risk-based manner (BSP). | MT |
| ***Update**: The existing GaR model is currently being refined, with the BSP refocusing on enhancing fixed-threshold models to better incorporate non-stationarities/learning. | |
| ***Financial Sector Supervision*** | |
| Lapse or limit the use of issued regulatory forbearance measures (BSP). | ST |
| ***Update**: The BSP has unwound the temporary relief measures, and most have expired/lapsed as of end-June 2023 except for the i) capital relief on the treatment of provisioning requirements (4Q 2023),[2] ii) ceilings on credit card transactions (subject to review every 6 months), iii) relief on the recognition of losses from sale/transfer of non-performing assets (NPAs) under the Financial Institutions Strategic Transfer (FIST) Act (Q2 2027), iv) temporary regulatory relief (i.e., reduction in the annual supervisory fees for 2022 and 2023) for banks that offer basic deposit accounts (BDA) (Q4 2023), v) Relief measures allowing thrift, rural and cooperative banks to utilize MSME loans and eligible loans to large enterprises as alternative compliance with the reserve requirement (RR), subject to conditions (4Q 2025). This measure expired for universal and commercial banks on June 30, 2023. In the case of thrift, rural and cooperative banks, their outstanding MSME and LE loans as of June 30, 2023 shall remain eligible as alternative compliance with the RR until such loans are fully paid, but not later than December 31, 2025, subject to conditions. | |
| Enhance regulatory powers and standards regarding transfer of significant ownership or controlling interest and to assess the suitability of beneficial owners of banks (BSP, DoF). | ST |
| ***Update on transfer of significant ownership***: The draft Circular covering the proposed amendments to the guidelines governing the transfer of significant ownership in banks and quasi-banks (QBs) was re-exposed[3] for comments on July 13, 2023. The BSP is currently evaluating the comments/inputs/feedback received from the industry and other pertinent stakeholders.<br><br>[1] Per BSP Memorandum No. M-2020-039. https://www.bsp.gov.ph/SitePages/Regulations/RegulationDisp.aspx?ItemId=4319<br>[2] No bank has availed of this relief measure based on latest available information.<br>[3] The draft Circular on the proposed amendments to the policy on the transfer of significant ownership was exposed for comments of various banking industry associations, pertinent BSP units, and other stakeholders on October 9, 2020, January 22, 2021 and July 13, 2023. | |

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

| Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations (Continued) | |
|---|---|
| Strengthen sectoral supervision, appoint the BSP as the lead supervisor of financial conglomerates and conduct more frequent and comprehensive risk-assessment of FCs (BSP, IC, SEC, FSF). | ST |
| ***Update***: The BSP was consistently appointed as one of the lead supervisors of the Supervisory College in the three reviews conducted so far. | |
| Update the large exposure requirements (to be applicable on a solo and consolidated level) and enhance large and related party exposure reporting requirements (BSP). | ST |
| ***Update***: BSP's Circular No. 1150 dated August 23, 2022 aligns the definition of large exposures with the Basel framework and sets the large exposures monitoring threshold at 25 percent of Tier 1 capital on both solo and consolidated basis. The issuance also requires the submission of semestral report on large exposures to the BSP which will commence in the first quarter of 2024 with reference period ending December 2023. On related party reporting requirements, the BSP is currently drafting the amendments to the existing prudential Report on Conglomerate Structure and Report on Material Related Party Transactions (RPT). The Report on Conglomerate Structure will be enhanced to include information on the following: (a) total assets of the entities forming part of the conglomerate; (b) extent of shareholdings of the controlling entities in the controlled corporations; and (c) major lines of business or activities that the member corporations are engaged in. | |
| Amend the bank secrecy laws to enhance supervision powers, strengthen AML/CFT effectiveness, and cooperation with foreign authorities (BSP, SEC, IC, AMLC and DoF). | MT |
| ***Update***: Proposed amendments to the Bank Secrecy Law[4] (House Bill No. 7446) were approved on May 8, 2023 and were transmitted and received by the Senate on May 9, 2023.[5] Counterpart legislations were also filed in the Senate of the Philippines under Senate Bill (SB) Nos. 1839[6], 1068[7], 596[8], and 56[9], which are still pending. | |
| Provide the power to the BSP to insert a regulated Financial Holding Company into a mixed conglomerate and obtain information from the wider group (BSP, DoF). | MT |
| ***Update***: This FSAP recommendation requires legislative action from both Houses of Congress. | |
| ***AML/CFT*** | |
| Make legislative amendments to (i) designate tax crimes as predicate ML offenses and (ii) establish a comprehensive legal framework for targeted financial sanctions against proliferation financing (AMLC, DoF). | ST |
| ***Update***: The authorities consider this recommendation addressed, for details please see the 2022 Article IV staff report. | |
| Strengthen risk-based AML/CFT supervision (including sanctioning procedures) for high-risk sectors, such as banks, casinos, money value transfer service providers (BSP, AMLC, PAGCOR). | ST |
| ***Update***: Since the last Article IV consultation, the AMLC has implemented various strategies to ensure that Designated Non-Financial Businesses and Professions (DNFBPs) are registered with the AMLC to allow it to implement its risk-based supervision over the DNFBPs. The concerted efforts by the AMLC, other SAs, Appropriate Government Agencies (AGAs), and industry associations have increased registration of covered persons with the AMLC from 7,018 (as of December 31, 2022) to 8,899 (as of August 31, 2023). Moreover, the AMLC created together with the BSP a working group to conduct reviews and leverage on the CDD conducted by banks to determine their DNFBP clients to ensure that banks only deal with AMLC-registered DNFBPs. The Code of Professional Responsibility and Accountability (CPRA) of the law profession (A.M. No. 22-09-01-SC) has also been amended. Specifically, the duty to report transactions to the AMLC is now expressly included. Lastly, the AMLC continuously conducts outreach to address various concerns of covered persons. | |
| Enhance the accuracy and availability of beneficial ownership information of companies (SEC). | MT |
| ***Update***: SEC has conducted outreach programs and used social media channels to inform stakeholders about the Electronic Filing and Submission Tool, a portal where all reporting requirements, including beneficial ownership (BO) information are uploaded and filed. SEC has also entered into data sharing agreements with relevant authorities allowing them to access beneficial ownership information directly as opposed to through AMLC. In addition, SEC increased existing penalties and introduced new ones for failure to comply with BO disclosing obligations. | |

[4] Lead Agency: BSP; Member Agencies: Presidential Legislative Liaison Office, AMLC, SEC, Office of the Solicitor General, Office of the Ombudsman, Law Enforcement Authorities, Department of Justice.

[5] https://www.congress.gov.ph/legisdocs/?v=bills

[6] SB No. 1839 or "An Act Promoting Transparent Governance and Instituting Anti-Corruption Mechanisms in the Operation of Banks and Other Financial Institutions, Amending for the Purpose Republic Act No. 1405, Otherwise Known as the Secrecy of Bank Deposits Law".

[7] SB No. 1068 or *"An Act Amending R.A. No. 1405, Otherwise Known as The Secrecy of Bank Deposits Law"*

[8] SB No. 596 or *"An Act Exempting Government Officials and Employees from the Prohibition Against Disclosure of or Inquiry into Deposits with Any Banking Institution, amending for the Purpose Certain Provisions of R.A. No. 1405, Otherwise Known as the 'Secrecy of Bank Deposits Law",*

[9] SB No. 56 or *"An Act Mandating Government Officials and Employees to Execute and Submit a Written Permission to Examine, Inquire or Look into All Their Deposits and Investments Thereby Waiving the Bank Secrecy Law as Provided for Under R.A. Nos. 1405 and 6426".*

| Table 1. Philippines FSAP: Authorities' Updates on Key Recommendations (Concluded) | |
|---|---|
| ***Crisis Management, Resolution, and Safety Net*** | |
| Ensure timely corrective actions and resolution of weak banks (BSP, PDIC). | ST |
| ***Update***: The PCA policy provides a maximum allowable PCA period of two (2) years[10] within which a PCA bank should address supervisory concerns which warranted its initiation into the PCA framework. Granting a period of more than one (1) year shall only be in consideration of the complexity and depth of the supervisory issues. | |
| Implement resolvability assessments and resolution plans, starting with D-SIBs (PDIC, BSP). | ST |
| ***Update***: The IMF conducted a TA mission to assess the current resolution framework of the BSP against the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions. Considering the IMF's recommendations from the TA, the BSP will review the Prompt Correction Action timeline, set definition of point of non-viability, and create a Resolution Group/Unit. It shall then establish resolution tools, draft a Resolution Manual and Guidelines on Resolvability Assessment, conduct resolvability assessment of domestic Systemically Important Banks, draft and submit a bill on resolution to Congress. | |
| Make the legal framework for ELA more specific regarding the conditions under which it can be provided and avoid assistance without collateral (BSP). | ST |
| ***Update***: As provided under Sections 84 to 88 of R.A. No. 7653, no emergency loan or advance may be granted except on a fully secured basis (subject to predetermined haircuts) and the Monetary Board may prescribe additional conditions. The BSP is currently receiving technical assistance on updating the ELA and lender of last resort (LOLR) functions. | |
| Designate and provide the PDIC with powers to act as resolution authority (PDIC, BSP, DoF). | MT |
| ***Update***: With the 2022 amendment of the PDIC charter, the powers of the PDIC on bank resolution, including granting consent to mergers and acquisitions, and the issuance of cease-and-desist orders pertaining to deposit-related unsafe and unsound banking were centralized with the BSP. | |
| Expand and operationalize bank resolution tools (particularly P&A) beyond liquidation (PDIC). | MT |
| ***Update***: The BSP is working on a plan to implement recommendations made by MCM TA in January 2023 regarding the bank resolution framework. | |
| ***Climate Change, Environment Risks and Supervision*** | |
| Improve information collection, monitoring of risk metrics, and stress test capacity for climate change and environmental risks (BSP). | MT |
| ***Update***: The BSP is conducting a climate transition risk stress testing exercise, in collaboration with the World Bank. The completion and finalization of a related report is targeted by the Q4 2023. The BSP is also exploring the establishment of a data catalogue which is envisioned to provide banks with information as to which data are available and where they can be sourced.<br>Moreover, the BSP participates in various capacity-building activities such as webinars and trainings conducted by the World Bank, IMF and Network for Greening the Financial System on climate and/or nature-related financial risks.<br><br>[10] This was reduced from the previous maximum period of three (3) years. | |
| Short-term (ST) = within one year medium-term (MT) = one to three years. | |

# Annex VII. Debt Sustainability Analysis

## Figure 1. Philippines: Risk of Sovereign Stress

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

**DSA Summary Assessment**

Commentary: The Philippines is at a "low" overall risk of sovereign stress and debt. Most indicators have started to normalize as the recovery from the COVID-19 shock has proceeded. Public debt is expected to gradually decline to about 57 percent of GDP over the medium-term, driven mainly by a favorable interest-growth differential. Debt coverage at the national level is appropriate, as local government units and social security institutions have surpluses. The realism tools suggest projections of key debt drivers are within norms. Medium-term solvency and liquidity risks are manageable. Over the longer run, structural reforms to boost growth potential and tackle risks from climate change should continue.

Source: Fund staff.

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

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

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

## Figure 2. Philippines: Debt Coverage and Disclosure

| | | | | | | Comments |
|---|---|---|---|---|---|---|
| **1. Debt coverage in the DSA: 1/** | CG | GG | NFPS | CPS | Other | |
| **1a. If central government, are non-central government entities insignificant?** | | | | | Yes | |
| **2. Subsectors included in the chosen coverage in (1) above:** | | | | | | |

| Coverage | | Subsectors captured in the baseline | Inclusion | Comments |
|---|---|---|---|---|
| CPS / NFPS / GG: expected / CG | 1 | Budgetary central government | Yes | |
| CPS / NFPS / GG: expected / CG | 2 | Extra budgetary funds (EBFs) | No | In surplus |
| CPS / NFPS / GG: expected / CG | 3 | Social security funds (SSFs) | No | In surplus |
| CPS / NFPS / GG: expected | 4 | State governments | No | In surplus |
| CPS / NFPS / GG: expected | 5 | Local governments | No | In surplus |
| CPS / NFPS | 6 | Public nonfinancial corporations | No | |
| CPS | 7 | Central bank | No | |
| CPS | 8 | Other public financial corporations | No | |

| | | | | | |
|---|---|---|---|---|---|
| **3. Instrument coverage:** | Currency & deposits | Loans | Debt securities | Oth acct. payable 2/ | IPSGSs 3/ |
| **4. Accounting principles:** | Basis of recording | | Valuation of debt stock | | |
| | Non-cash basis 4/ | Cash basis | Nominal value 5/ | Face value 6/ | Market value 7/ |
| **5. Debt consolidation across sectors:** | | Consolidated | | Non-consolidated | |

**Color code:** chosen coverage; Missing from recommended coverage; Not applicable

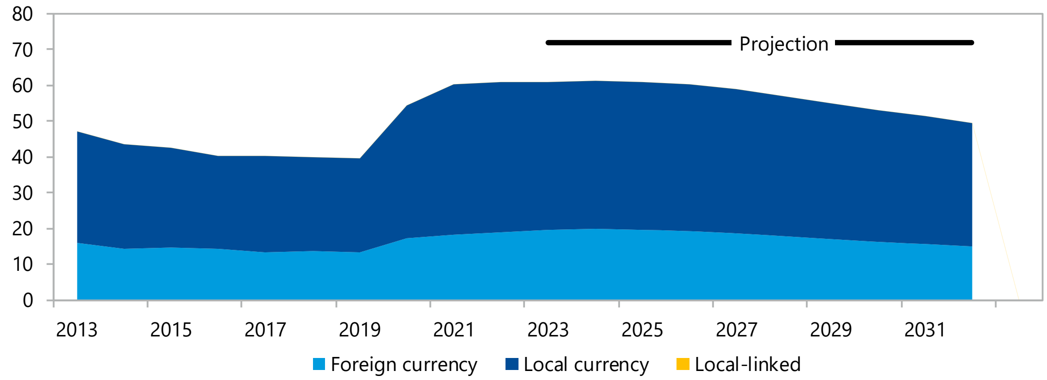
**Reporting on Intra-Government Debt Holdings**

| | Issuer \ Holder | Budget. central govt | Extra-budget. funds (EBFs) | Social security funds (SSFs) | State govt. | Local govt. | Nonfin. pub. corp. | Central bank | Oth. pub. fin corp | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| 1 | Budget. central govt | | 3.2 | 4.3 | | | | | | 7.5 |
| 2 | Extra-budget. funds | | | | | | | | | 0 |
| 3 | Social security funds | | | | | | | | | 0 |
| 4 | State govt. | | | | | | | | | 0 |
| 5 | Local govt. | | | | | | | | | 0 |
| 6 | Nonfin pub. corp. | | | | | | | | | 0 |
| 7 | Central bank | | | | | | | | | 0 |
| 8 | Oth. pub. fin. corp | | | | | | | | | 0 |
| | Total | 0 | 3.2 | 4.3 | 0 | 0 | 0 | 0 | 0 | 7.5 |

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

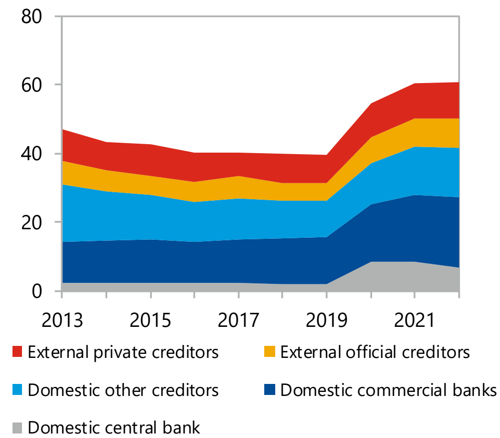
Commentary: The coverage in this SRDSA is national government debt. Debt held by Bond Sinking Funds is about 3 percent of GDP and intra-sector bond holding about 4 percent of GDP. Total consolidated general government debt was 54 percent of GDP at end-2022, about 7 percentage points of GDP lower than the national government debt.

## Figure 3. Philippines: Public Debt Structure Indicators



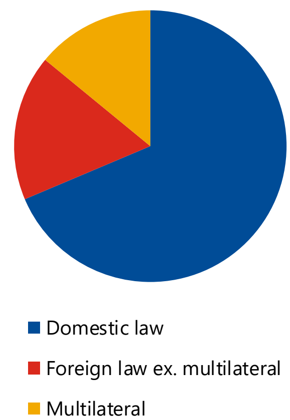

Note: The perimeter shown is central government.

### Public Debt by Holder (percent of GDP)



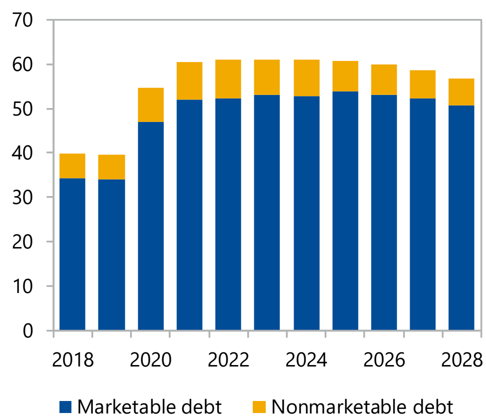

Note: The perimeter shown is central government.

### Public Debt by Governing Law, 2022 (percent)



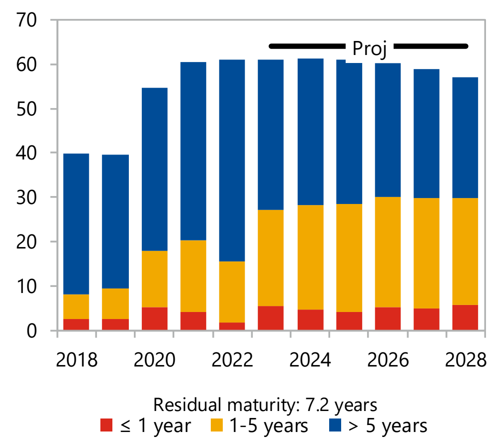

Note: The perimeter shown is central government.

### Debt by Instruments (percent of GDP)




Note: The perimeter shown is central government.

### Public Debt by Maturity (percent of GDP)




Note: The perimeter shown is central government.

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

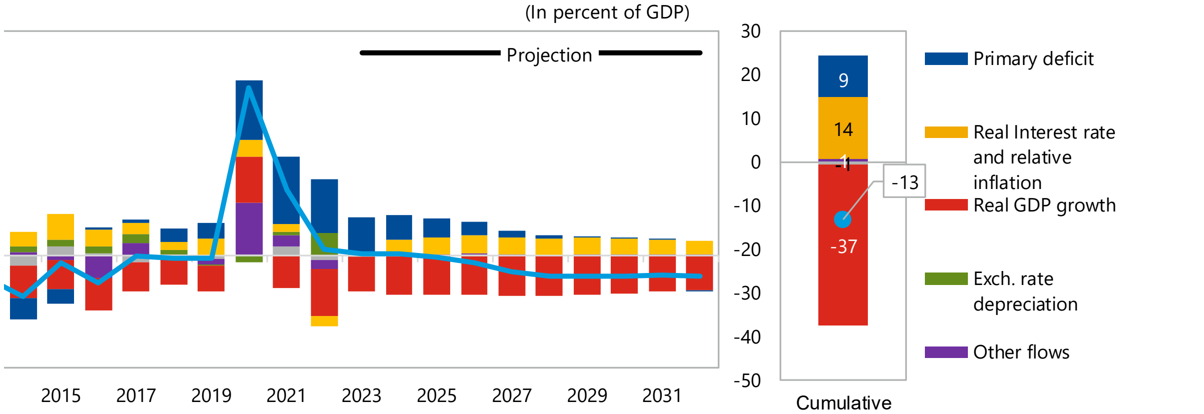
## Figure 4. Philippines: Baseline Scenario

(Percent of GDP unless indicated otherwise)

| | Actual | Medium-term projection | | | | | | Extended projection | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 |
| Public debt | 60.9 | 61.1 | 61.1 | 60.9 | 60.3 | 58.8 | 56.9 | 55.1 | 53.2 | 51.4 | 49.5 |
| Change in public debt | 0.5 | 0.1 | 0.1 | -0.2 | -0.6 | -1.5 | -1.9 | -1.9 | -1.9 | -1.8 | -1.9 |
| Contribution of identified flows | 1.0 | 0.3 | 0.1 | -0.2 | -0.7 | -1.4 | -1.8 | -1.8 | -1.8 | -1.8 | -1.8 |
| Primary deficit | 4.9 | 3.2 | 2.2 | 1.7 | 1.2 | 0.5 | 0.2 | 0.1 | 0.0 | 0.1 | 0.0 |
| Noninterest revenues | 16.1 | 15.7 | 16.4 | 16.7 | 17.0 | 17.3 | 17.4 | 17.4 | 17.4 | 17.4 | 17.4 |
| Noninterest expenditures | 21.0 | 18.9 | 18.6 | 18.4 | 18.2 | 17.8 | 17.7 | 17.5 | 17.5 | 17.5 | 17.4 |
| Automatic debt dynamics | -3.2 | -3.0 | -2.2 | -2.0 | -2.0 | -2.1 | -2.1 | -1.9 | -1.9 | -1.9 | -1.9 |
| Real interest rate and relative inflation | -0.9 | 0.1 | 1.2 | 1.5 | 1.6 | 1.5 | 1.5 | 1.5 | 1.4 | 1.3 | 1.2 |
| Real interest rate | -0.6 | -0.1 | 1.1 | 1.4 | 1.5 | 1.4 | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 |
| Relative inflation | -0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Real growth rate | -4.3 | -3.1 | -3.5 | -3.5 | -3.6 | -3.6 | -3.5 | -3.4 | -3.3 | -3.2 | -3.1 |
| Real exchange rate | 1.9 | ... | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Other identified flows | -0.7 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Contingent liabilities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| (minus) Interest Revenues | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other transactions | -0.7 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Contribution of residual | -0.5 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | -0.1 | -0.1 | -0.1 | -0.1 | -0.1 |
| Gross financing needs | 10.6 | 11.4 | 10.0 | 9.6 | 8.3 | 8.6 | 7.9 | 8.6 | 7.7 | 8.1 | 7.6 |
| of which: debt service | 5.7 | 8.2 | 7.8 | 7.9 | 7.1 | 8.1 | 7.6 | 8.5 | 7.7 | 8.0 | 7.6 |
| Local currency | 4.5 | 7.0 | 6.0 | 6.3 | 5.8 | 6.7 | 6.0 | 6.9 | 6.1 | 6.5 | 6.2 |
| Foreign currency | 1.1 | 1.3 | 1.8 | 1.6 | 1.3 | 1.4 | 1.7 | 1.6 | 1.6 | 1.5 | 1.4 |
| Memo: | | | | | | | | | | | |
| Real GDP growth (percent) | 7.6 | 5.3 | 6.0 | 6.1 | 6.2 | 6.3 | 6.4 | 6.4 | 6.4 | 6.4 | 6.4 |
| Inflation (GDP deflator; percent) | 5.5 | 4.8 | 3.0 | 2.7 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Nominal GDP growth (percent) | 13.5 | 10.4 | 9.3 | 8.9 | 8.9 | 9.0 | 9.1 | 9.1 | 9.1 | 9.1 | 9.1 |
| Effective interest rate (percent) | 4.3 | 4.6 | 5.0 | 5.1 | 5.1 | 5.0 | 5.1 | 5.2 | 5.1 | 5.1 | 4.9 |

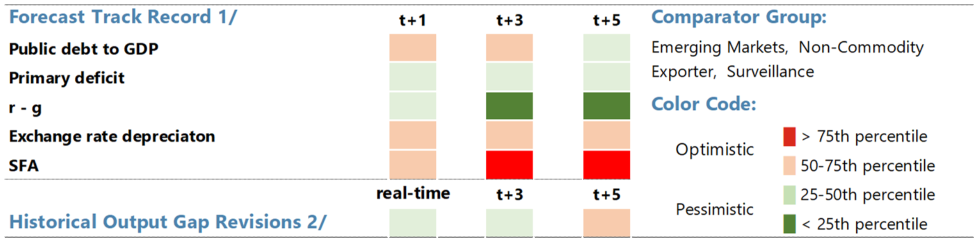
### Contribution to Change in Public Debt

(In percent of GDP)



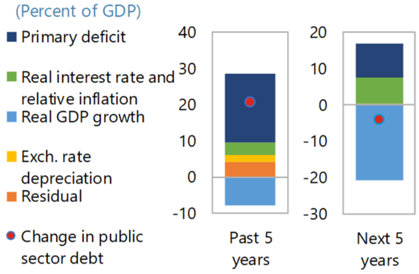

Commentary: Public debt will rise slightly but then decline, reflecting expectations of a narrowing of primary deficits and favorable interest-growth differential. Gross financing needs are expected to remain manageable.

## Figure 5. Philippines: Realism of Baseline Assumptions

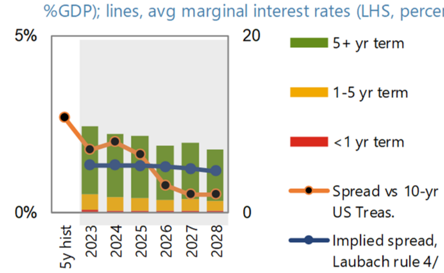



**Public Debt Creating Flows**

(Percent of GDP)

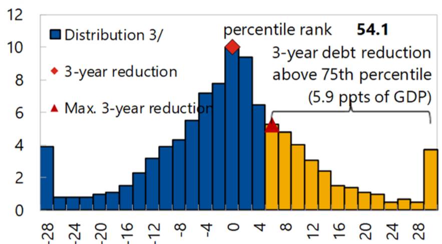



**Bond Issuances** (bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

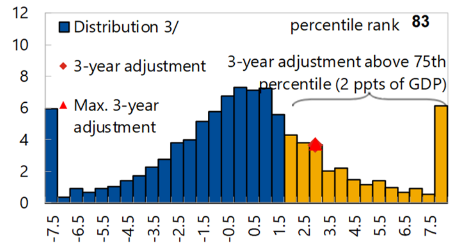



**3-Year Debt Reduction**

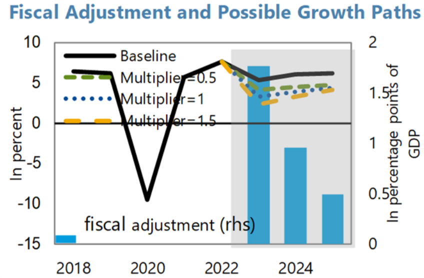
(Percent of GDP)




**3-Year Adjustment in Cyclically-Adjusted Primary Balance** (percent of GDP)

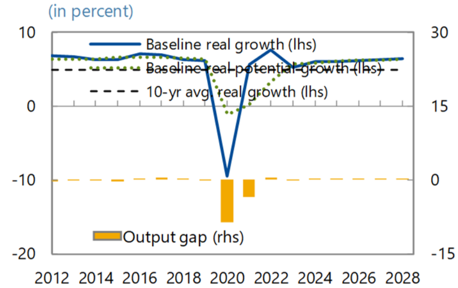



**Fiscal Adjustment and Possible Growth Paths**




**Real GDP Growth**

(in percent)




Commentary: Realism analysis does not point to major concerns: past forecast errors do not reveal systematic biases and the projected fiscal adjustment and debt reduction are within norms. The authorities are committed to fiscal consolidation.

Source: IMF Staff.

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

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates and final estimates in the latest October WEO) in the total distribution of revisions across the data sample.

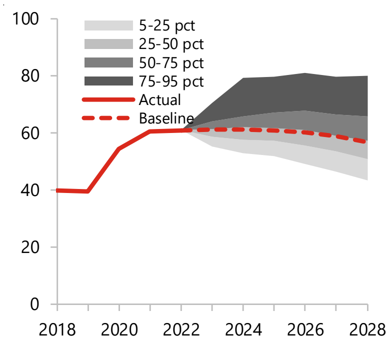
3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

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

## Figure 6. Philippines: Medium-Term Risk Assessment

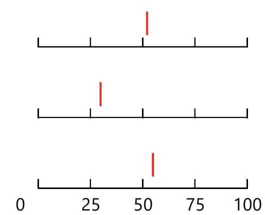
| | Value | Contrib [1/] | Percentile in peer group [2/] |
|---|---|---|---|

**Final Fanchart (pct of GDP)**

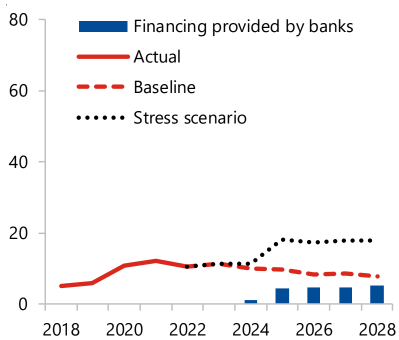



**Debt Fanchart Module**

| | Value | Contrib | |
|---|---|---|---|
| Fanchart width *(percent of GDP)* | 36.6 | 0.5 | |
| Probability of debt non-stabilization *(percent)* | 3.2 | 0.0 | |
| Terminal debt-to-GDP x institutions index | 32.9 | 0.7 | |
| **Debt fanchart index (DFI)** | | 1.3 | |
| **Risk signal:** [3/] | | Moderate | |

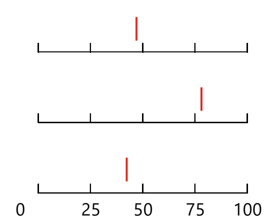



**Gross Financing Needs (pct of GDP)**



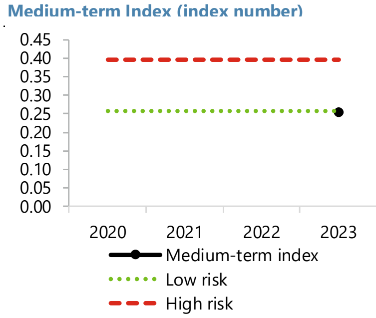

**Gross Financing Needs (GFN) Module**

| | Value | Contrib | |
|---|---|---|---|
| Average baseline GFN *(percent of GDP)* | 9.3 | 3.2 | |
| Banks' claims on the gen. govt *(pct bank assets)* | 19.2 | 6.2 | |
| Chg. In banks' claims in stress *(pct banks' assets)* | 7.2 | 2.4 | |
| **GFN financeability index (GFI)** | | 11.8 | |
| **Risk signal:** [4/] | | Moderate | |




Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

**Medium-term Index (index number)**




Medium-term Risk Analysis

| | Value | Norm. Value | Weight | Contribution |
|---|---|---|---|---|
| Debt fanchart index | 1.27 | 0.28 | 0.50 | 0.14 |
| GFN finaceability index | 11.78 | 0.23 | 0.50 | 0.11 |
| **Medium-term index** | | 0.3 | | |
| **Risk signal: 5/** | | Low | | |
| **Final assessment:** | | Low | | |

Prob. of missed crisis, 2023-2028, if stress not predicted: 9.1 pct.

Prob. of false alarms, 2023-2028, if stress predicted: 42.0 pct.

Commentary: The Debt Fanchart module indicates a moderate risk around the projected debt baseline. In the GFN Financeability Module, a combination of increased GFN due to the pandemic and a relatively high initial bank holdings of public debt result in a moderate risk under macro-fiscal and debt holder shock. Taken together, the MTI produces a mechanical "low" signal.

Source: IMF staff estimates and projections.

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

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

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

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

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

## Figure 7. Philippines: Long-Term Risk Analysis

### Large Amortization Trigger

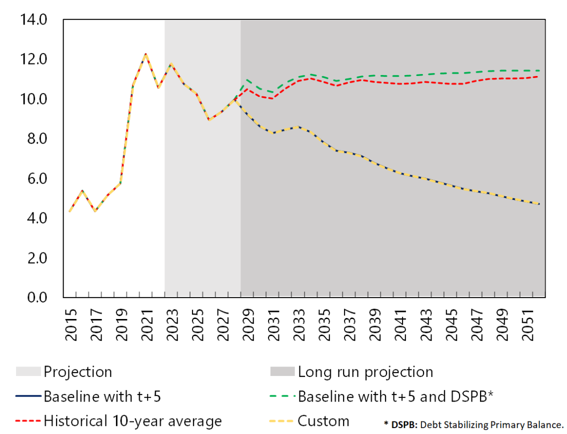
| Projection | Variable | Risk Indication |
|---|---|---|
| Medium-term extrapolation | GFN-to-GDP ratio<br>Amortization-to-GDP ratio<br>Amortization | |
| Medium-term extrapolation with debt stabilizing | GFN-to-GDP ratio<br>Amortization-to-GDP ratio<br>Amortization | |
| Historical average assumptions | GFN-to-GDP ratio<br>Amortization-to-GDP ratio<br>Amortization | |

| | |
|---|---|
| **Overall Risk Indication** | |

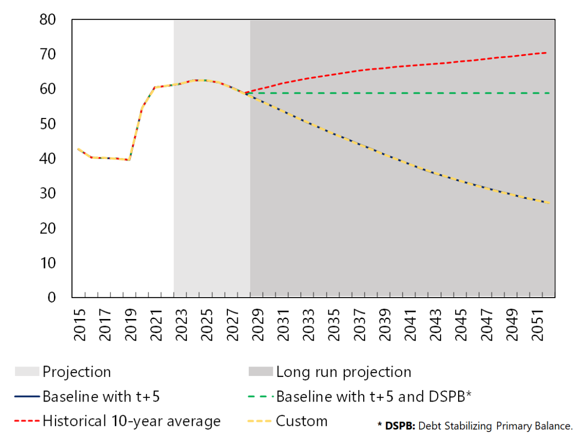
### Alternative Baseline Long-term Projections (including Custom scenario)

| | Baseline extension of fifth projection year | Custom baseline |
|---|---|---|
| Real GDP growth | 6.4% | 6.4% |
| Primary Balance-to-GDP | -0.2% | -0.2% |
| Real depreciation | -2.5% | -2.5% |
| Inflation (GDP deflator) | 2.5% | 2.5% |

**GFN-to-GDP Ratio**




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

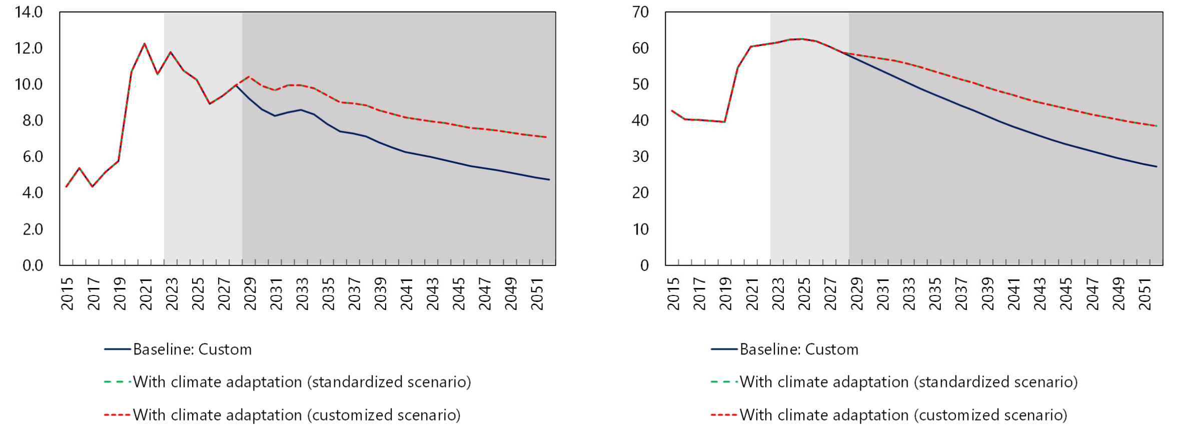



Commentary: The increased GFN is due to the fiscal response to the pandemic and is expected to decline over the medium- to long-term horizons. The maintenance of a Bond Sinking Fund with about 3 percent of GDP assets at end-2022 helps mitigate the refinancing risks.

## Figure 7. Philippines: Long-Term Risk Analysis (Concluded)

### Climate Change: Adaptation

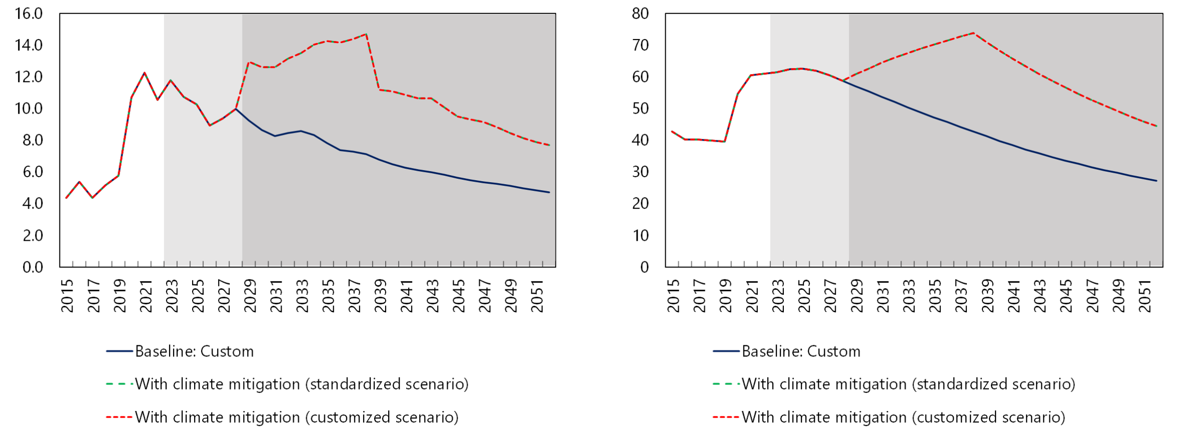
**GFN-to-GDP Ratio** | **Total Public Debt-to-GDP Ratio**




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

### Climate Change: Mitigation

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




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

# Annex VIII. Capacity Development Strategy[1]

## Context

1. **Despite some recent moderation, the Philippine economy recovered strongly following a sharp contraction caused by the COVID-19 pandemic**. Sustained reforms and prudent macroeconomic policies in recent years have supported strong economic growth, making the Philippines one of the best performing economies in the Asia and Pacific region. Following a 9.5 percent contraction of GDP in 2020, the economy gradually reopened in 2021 and grew by 7.6 percent in 2022. Growth is primarily driven by robust private consumption and investment, although it remains subject to considerable downside risks linked to the global economic slowdown, monetary policy tightening in advanced economies, high imported commodity prices following Russia's war in Ukraine, and geoeconomic fragmentation.

2. **The authorities' socioeconomic policy agenda—focused on infrastructure, education, and health—aims to minimize economic scarring from the pandemic and set the stage for higher and more equitable growth**. Poverty and inequality remain high, and the new administration intends to reduce the poverty rate from 18.1 percent of the population in 2021 to 9 percent by 2028. Addressing climate change is of paramount concern, as the Philippines is one of the countries most exposed to rising sea levels and the increasingly severe impact of cyclones and typhoons. Financing the authorities' ambitious adaptation and mitigation objectives remains a challenge.

3. **The Philippines has made considerable use of Fund capacity development (CD) resources and showed a good track record in using these resources to support its policy and reform agenda**. Over the past decade, Fund CD has focused on monetary policy frameworks, financial sector stability and integrity, capital market development, tax policy and administration, public financial management, treasury management, and government finance statistics (GFS). The authorities have made considerable progress in many of these areas, as evidenced by the strong macroeconomic fundamentals built prior to the pandemic which now sustain recovery efforts.

## Forward Looking-CD Agenda

4. **Reforms in many of these areas will remain as priorities for CD, and adjustment will be taken to address the challenging external environment**. The deep economic contraction during the pandemic and the recent slowdown in the global economy have increased risks to the banking system and the corporate sector, which were highlighted by the 2021 FSAP. Policy responses to the pandemic also diminished the country's policy buffers and their unwinding over the medium term may pose challenges. Fund CD will therefore focus on enhancing the Philippines' capacity to manage macroeconomic and financial risks, execute a well-calibrated exit strategy, and rebuild policy buffers. Moreover, the authorities are aiming to build better and more as part of their recovery strategy, including by accelerating the digitalization of the economy to improve resilience

[1] Prepared by Ragnar Gudmundsson (APD).

and inclusion. Along with other emerging issues such as climate change adaptation and mitigation, these should be considered as priorities for Fund CD in the future.

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

- *Implementation of monetary policy*. An immediate focus should be on inflation forecasting and the integrated analysis of monetary and other policies, building on ongoing refinements to the BSP's Policy Analysis Model for the Philippines. ICD has been leading the BSP's Policy Analysis Model under an ICD Philippines TA project. Another priority is central bank communication, which has recently focused on exiting the exceptional policy measures adopted during the pandemic. Further assistance is likely to be needed to help the BSP improve its communication on financial stability, digital money and cybersecurity, and climate-related financial risks.

- *Financial supervision and regulation*. The BSP launched a major initiative to strengthen its bank supervisory framework in response to the pandemic and started implementing the recommendations of the 2021 FSAP. The Fund should continue to support these efforts, including on conglomerate supervision and the conduct of supervisory colleges, resolution planning and resolvability assessments, inter-institutional information exchange and cooperation, and developing stress-testing and climate risk assessment capacity.

- *Systemic risk analysis*. More advanced training and Fund TA on financial market analysis and stress testing could help strengthen the BSP's capacity in the analysis of financial stability and macro-prudential policies, especially in the context of addressing the risks to the banking system as identified in the FSAP.

- *Tax policy and administration*. Public debt has risen sharply because of the pandemic, now exceeding the indicative threshold of 60 percent of GDP. To rebuild policy buffers, the authorities will need to mobilize more revenues by strengthening capacity in tax policy and revenue administration. A recent tax policy scoping mission by FAD helped identify priorities for the government and define a policy reform agenda for the next 2-3 years, including the possible introduction of carbon taxation. The revenue administration reform agenda should be finalized after the upcoming TADAT assessment when a more comprehensive medium term revenue strategy (MTRS) could be considered. In parallel, FAD support in the analysis of VAT gap, and tax expenditure will also be needed.

- *Public financial management (PFM)*. In view of the revenue constraints and the authorities' *successor* "Build Better More" program, continued improvements in PFM will help create more fiscal space by raising the efficiency of public expenditures on infrastructure investment and social services. FAD has recently supported government-owned and controlled corporations (GOCCs) oversight, public private partnership (PPP) management, digitalization, fiscal transparency, and public investment management. Digitalization of financial management information systems will notably enhance the delivery of government services. FAD support could be considered to strengthen the MTFF and fiscal policy communication in budget documents, including the use of a fiscal anchor, forecast scenarios, and macro-fiscal forecast reconciliation.

- *Macro-fiscal frameworks*. The Office of the Chief Economist in the Department of Finance recently requested support to develop capacity in macroeconomic analysis and macro-fiscal modeling, and to receive in-person training on revenue forecasting. ICD has agreed with the Department of Finance on a two-year capacity development plan to assist the staff at the Department of Finance to develop a macroeconomic projection tool (MPT) for forecasting and policy analysis. The first TA mission, focusing on introducing the MPT and delivering necessary training to use the MPT, was conducted successfully in June 2023.

- *Government finance statistics*. Strengthening of government finance and public sector debt statistics will also contribute to enhanced budget transparency and accountability, including in the context of gradual transfer of fiscal responsibilities to Local Government Units. The IMF Statistics Department will continue providing technical assistance to the Philippines authorities in GFS and Public Sector Debt Statistics (PSDS). The Philippines has made significant progress in compiling and disseminating GFS where, among others, the fiscal data used in this Article IV report is aligned with the GFSM 2014 framework. Work will continue to align sectoral coverage between all fiscal outputs, including official Budget Law data, annual data published by the IMF Statistics Department, and PSDS. This includes an ongoing review of the GOCCs—some of which may need to be newly included in the government sector—and additional work on *Barangay* data. The CD aims to further improve the coordination of government sector compilation by the Department of Finance, the Bureau of the Treasury, BSP, and the Philippine Statistics Authority, including quarterly "balance sheet approach" data that is published by BSP since Q4 2019.

6. **Many specific CD needs are likely to arise under or even beyond these seven workstreams given the Fund's expanding surveillance agenda and the authorities' wide-ranging policy reforms**.

- *Bank resolution, crisis management, and corporate restructuring*. The FSAP has highlighted the potential stress facing the banking and corporate sectors. Fund CD assistance may be needed to help the authorities enhance the capacity to maintain financial stability and facilitate economic recovery. Recently provided recommendations to enhance the bank resolution framework and strengthen the operational resilience of the banking system will benefit from continued support in the implementation phase, while Fund TA was recently provided to help the BSP develop its lender of last resort and collateral frameworks.

- *Anti-money laundering and combating financing of terrorism*. The authorities continue to face significant challenges in the effective implementation of Financial Action Task Force (FATF) recommendations. The Fund should stand ready to help in this regard, especially given the Philippines remaining grey-listed as of January 2023 and the authorities' objective of exiting the list in 2024.

- *Debt management and capital market development*. Rising public debt and the increasing need for fiscal financing as a result of the pandemic heightens the need to strengthen the capacity in debt management and to accelerate capital market development to ensure adequate, stable domestic financing. The authorities have expressed interest in continued Fund CD in these two areas. Support should notably focus on the implementation of recent advice to improve liquidity management and develop Open Market Operations instruments.

- *Public investment management*, including for GOCCs. Building on the Fund's CD in PIMA and financial oversight of GOCCs, further assistance would help the authorities improve the efficiency of infrastructure investment and the management of contingent liabilities. Updating the 2018 PIMA would also provide an opportunity to apply the Climate-PIMA module to the Philippines in constructing resilient infrastructure and adopting green PFM practices.

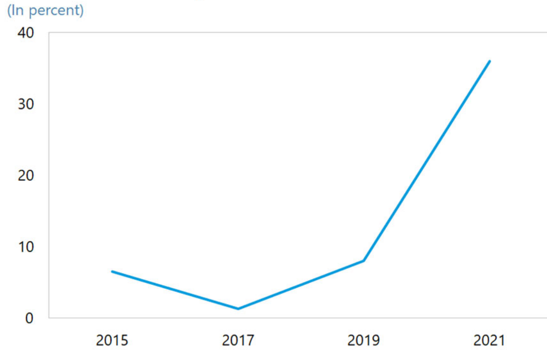
- *Promoting the digital economy*, including fintech and central bank digital currencies. The BSP recently created a sector on payments and currencies and a research academy. Fund CD would be valuable for building capacity in the new sector and the academy, and support is already under way for the launch of a pilot wholesale CBDC project. FAD recently provided support to the Department of Budget and Management to support the digitalization of the Integrated Financial Management Information System (IFMIS).

# Annex IX. Promoting the Digitalization of the Philippine Economy[1]

**1. The potential benefits of digitalization for the Philippine economy are wide-ranging**. They include supporting the service sector-led growth engine, promoting financial inclusion, and raising the efficiency of government services. Reaping those benefits depends on further developing the archipelago's digital infrastructure, investing in quality education, and rolling out inter-operable information systems across government agencies.

**2. The digital economy is estimated by the government to have contributed about 10 percent of GDP in 2022 and is notably expected to strengthen the position of the Philippines as a BPO hub**. With generative AI enabling productivity gains of up to 14 percent for customer support agents, industry leaders stress the importance of upskilling the labor force to remain competitive and creating higher value-added content. Digitalization is moreover expected to facilitate access to banking given the still high proportion of the population that is unbanked. Already from 2019 to 2021, the number of banked Filipinos increased from 20.9 million to 42.9 million, with e-money accounts representing most new accounts. The transparency and efficiency of government services also stand to benefit from digitalization at both central and local government levels, including by improving public spending efficiency, strengthening accountability and reducing the scope for corruption. The Administration issued Executive Order No. 29 in June 2023 to expedite the digitalization and reengineering of PFM processes to streamline government transactions. In addition, the ongoing issuance of the biometric-based Philippine Identification System and the development of a community-based monitoring system to develop registries and identify program beneficiaries will facilitate better targeting and faster delivery of social protection programs.

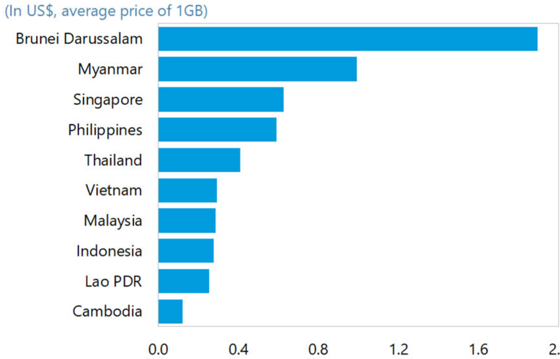
**Adults with E-Money Accounts**
(In percent)




Source: Banko Sentral ng Pilipinas, Financial Inclusion Survey.

**3. Developing the country's digital physical infrastructure and internet connectivity is a priority, especially outside urban centers**. Broadband coverage remains low, with only 17.7 percent of households having internet access in 2019, and in 2023 the average price of one gigabyte of data was

**ASEAN: Cost of Mobile Data**
(In US$, average price of 1GB)




Source: Worldwide Mobile Data Pricing, Cable.co.uk

[1] Prepared by Ragnar Gudmundsson (APD).

higher than in most other ASEAN countries. With support from the World Bank, the government aims to keep the cost of mobile broadband services at 2 percent of per capita income and to reduce the cost of fixed broadband services. Government efforts should also focus on ensuring the relevance of the curriculum and readying schools for hybrid and tech learning, while facilitating private sector links with tertiary institutions to better match student skills and employer needs. In that regard, the Technical Education and Skills Development Authority, Commission on Higher Education, and IT Business Process Association are currently exploring joint projects to strengthen the digital skills of students.

# Annex X. Social Protection[1]

**1. As a developing country, the Philippines has always prioritized social protection (SP) programs to reduce poverty and protect vulnerable households**. Faced with high poverty rates, the Philippines, through its Social Development Cluster, developed and adopted a SP agenda in 2007 and the Social Protection Operational Framework and Strategy in 2009, which aim to increase financing and ensure efficient public spending for SP programs; improve poverty targeting; and strengthen governance, monitoring, and evaluation of SP programs. The Philippine government has institutionalized the *Pantawid Pamilyang Pilipino Program* (4Ps) in 2019 under Republic Act No. 11310. The 4Ps, which is a conditional cash transfer (CCT) program providing cash grants to poor households based on the fulfillment of health and education related conditions, is part of the government's overall national poverty reduction strategy and human capital investment program.

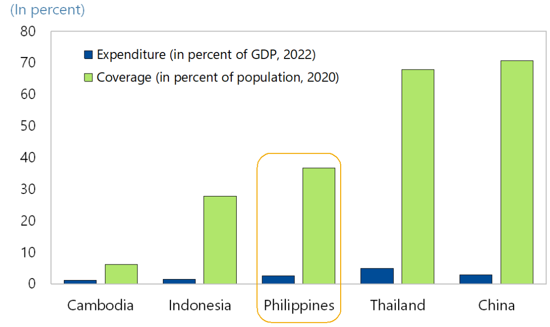
**2. Over the years, national government's SP expenditure has been increasing**. 4Ps, the country's biggest SP program, initially covering 6,000 poor households as beneficiaries during its first year of implementation, currently covers 4.4 million poor households. Budgetary allocations for 4Ps have increased from PHP50 million in 2007 to PHP78 billion in 2017 and PHP113 billion in the proposed FY2024 budget, contributing to the reduction of poverty rate from 47.1 percent in 2007 to 18.1 percent in 2021.[2] The COVID-19 pandemic, the Russia-Ukraine war, various climate-change related disasters, and high inflation rates have adversely affected the livelihood of the poor and vulnerable and paved way for new targeted SP programs that also cover agriculture and transport sectors, such as the Fuel Subsidy Program, Fuel Assistance to Farmers and Fisherfolks, Targeted Cash Transfer Program, Service

**Food and Fuel Subsidy**
(In millions of peso)

| | 2022 | 2023 Est. | 2024 Budget |
|---|---|---|---|
| Fuel Subsidy Program 1/ | 2,500.0 | 3,000.0 | 2,500.0 |
| Fuel Assistance to Farmers 1/ | 250.0 | 510.4 | 510.4 |
| Fuel Assistance to Fisherfolk 1/ | 250.0 | 489.6 2/ | 489.6 |
| Targeted Cash Transfer Program | 18,400.0 | 7,700.0 | |
| Service Contracting of Public Utility Vehicle (PUV) Program | 8,400.0 | | |
| Fertilizer Discount Voucher (FDV) program 3/ | 7,437.8 | 13,341.2 | 9,549.7 |
| Food STAMP Program | | | 1,890.0 |

Source: Philippine authorities.
1/ Linked to oil prices: Subsidies are disbursed on the condition that the average Dubai crude oil price based on Mean of Platts Singapore for three (3) months reaches or exceeds Eighty Dollars (USD 80) per barrel.
2/ Includes P50 million provision for the Support to Fisheries Development in the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM).
3/ Amounts identified through attribution of programs, activities, and projects (PAPs).

**Social Protection Expenditures and Coverage**
(In percent)




Sources: Philippine authorities; and ADB, Key Indicators for Asia and the Pacific 2023.

[1] Prepared by Hannah Lyn Go (APD).

[2] It is estimated that 4Ps reduced the national poverty rate by 1.5 percentage points, lifted 1.5 million people out of poverty, and reduced national income inequality by 0.6 percentages points in 2015 (World Bank, 2018, Making Growth Work for the Poor: A Poverty Assessment for the Philippines).

Contracting of Public Utility Vehicle (PUV) Program, Fertilizer Discount Voucher Program, and the Food STAMP Program.[3]

**3. Despite showing an increasing trend, Philippine government's SP expenditure still lags compared to other emerging market economies**. The Philippines managed to increase its SP spending to 2.7 percent of GDP in 2022 from 1.3 percent GDP in 2015. However, the Philippines still lags behind China's and Thailand's SP spending of 3.0 and 4.9 percent of their GDPs, respectively. Moreover, the Philippines' SP coverage of 36.7 percent also falls below China's and Thailand's SP coverages of 70.8 and 68.0 percent, respectively. Further scaling up of SP programs would require revenue mobilization to create more fiscal space.

**4. There is a need to improve SP spending efficiency and accelerate program implementation to shield vulnerable sectors and the poor from economic shocks amid limited fiscal space**. Chapter 3 of the Philippine Development Plan 2023-2028 highlights digitalization as an essential process to make SP systems more efficient through improved targeting and timely and anticipatory delivery mechanisms. Adoption of the national ID system and development of digital platforms will result in improved targeting and better coordination among stakeholders in reviewing, designing, rationalizing, and delivering SP programs, while utilization of digital payment methods will ensure seamless and fast transactions. An early warning system to help with contingency financing mechanisms and readiness for disaster response will help reduce the impact of shocks and contribute to the government's effort to rebuild fiscal buffers. Increased investments in human capital should also help the Philippines lessen its SP fiscal burden in the long run.

[3] The official name is *Walang Gutom* 2027: Food Provision through Strategic Transfers and Alternative Measures Program (FOOD STAMP).

INTERNATIONAL MONETARY FUND

# PHILIPPINES

## STAFF REPORT FOR THE 2023 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

November 9, 2023

Prepared By

Asia and Pacific Department

## CONTENTS

# FUND RELATIONS

(As of October 31, 2023)

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

**General Resources Account**

| | SDR Millions | Percent of Quota |
|---|---|---|
| Quota | 2,042.90 | 100.00 |
| IMF holdings of currency (holdings rate) | 1,453.37 | 71.14 |
| Reserve tranche position | 589.71 | 28.87 |
| Lending to the Fund<br>New Arrangements to Borrow | 2.00 | |

**SDR Department**

| | SDR Millions | Percent of Allocation |
|---|---|---|
| Net cumulative allocation | 2,795.99 | 100.00 |
| Holdings | 2,833.32 | 101.33 |

**Outstanding Purchases and Loans**: None

**Latest Financial Arrangements**:

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

**Projected Payments to Fund**: None.

**Exchange Rate Arrangement**

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

**Article IV Consultation**

Philippines is on the standard 12-month cycle. The previous Article IV consultation discussions were held during September 12-26, 2022. The Executive Board Meeting for the 2022 Article IV consultation was held on November 23, 2022 (IMF Country Report No. 22/369).

**Financial Sector Assessment Program (FSAP)**

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

**Resident Representative**

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

# RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

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

# STATISTICAL ISSUES

(As of October 15, 2023)

| I. Assessment of Data Adequacy for Surveillance |
|---|
| **General**: Data provision is broadly adequate for surveillance with some shortcomings in external sector and fiscal statistics. |
| **National accounts**: The Philippine Statistics Authority (PSA) has rebased the national accounts from 2000 to 2018 and adopted the *2008 System of National Accounts*. The results, disseminated in 2020, reflect continued strides by the authorities on improving data quality. Work is underway to improve (i) the accuracy of the GDP volume measures; (ii) the coverage of the public corporations sector; (iii) the accuracy of the quarterly GDP data; (iv) the adoption of benchmark techniques to reconcile quarterly and annual national accounts estimates; and (v) the development of high-frequency indicators of economic activities.<br><br>**Price statistics**: In February 2022, the PSA introduced an updated consumer price index (CPI) with an index reference period of 2018=100. Weights used in the new series were derived from the results of the 2018 Family Income and Expenditures Survey. The PSA disseminate the CPI five days after the reference month. In March 2021, the PSA updated the index reference period of the producer price index (PPI) to 2018=100, with weights from the 2018 Census of Philippine Business and Industry. The PSA is working to expand PPI coverage to the services sectors. The BSP publishes a quarterly residential real estate price index (RREPI) using a basic stratification approach. The authorities intend to implement improved methods for the RREPI and publish information on commercial property prices (land only) for the first time. |
| **External sector statistics (ESS)**: The BSP completed the balance of payments compilation based on the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*) framework in March 2014, and that of the international investment position (IIP) in September 2014. Current account transactions and portfolio investment and other investment transactions and positions are adequately covered and treated broadly in line with BPM6, with some of the most relevant components, such as remittances and IT-related business services requiring minor improvements.<br><br>Some ESS components, though, present relevant shortcomings regarding coverage as well as consistency across datasets, most notably direct investment equity and debt, and portfolio debt securities. Most of these issues can be mitigated by improvements in the ESS data collection framework. In April 2022, STA provided a TA to the BSP for improving the ESS data collection framework. |
| **Monetary and financial statistics**: The authorities report monthly monetary statistics for the central bank and other depository corporations with a lag of less than two months, using the standardized report forms for publication in the *International Financial Statistics (IFS)*. In October 2019, the BSP started the publication of the Other Financial Corporations Survey, after a joint effort between the Insurance Commission, SEC, the Governance Commission for GOCCs, and BSP, supported by STA TA program. Currently, the results of the survey are now being disseminated through *IFS*. The BSP reports data on several series and indicators of the Financial Access Survey, including mobile money series and the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the United Nations to monitor Target 8.10 of the Sustainable Development Goals.<br><br>**Financial sector surveillance**: The authorities report all 15 core financial soundness indicators (FSIs), 7 of the 12 encouraged FSIs for deposit takers, and 2 FSIs for real estate markets—on a quarterly basis—for posting on the IMF's FSI website with one quarter lag. |
| **Government finance statistics (GFS)**: Provision of fiscal data is broadly adequate for surveillance. The authorities report data for the budgetary central government in the *GFSM 2014* format. This has been expanded to a general government basis by the authorities mainly through the inclusion of social security institutions and local government. They have also made significant progress on regular production of quarterly GFS, supported by STA, expanding the sector coverage of GFS to the general government on a higher frequency. These improvements are yet to be reflected in the published data, pending the implementation of administrative arrangements. Expanding the coverage of Quarterly Public Sector Debt by including domestic debt is being implemented. |

| II. Data Standards and Quality | |
|---|---|
| A subscriber to the Special Data Dissemination Standard (SDDS) since 1996, Philippines met SDDS specifications in January 2001 and uses SDDS flexibility options on the timeliness of production index and producer prices data. Philippines' latest SDDS Annual Observance Report is available on the Dissemination Standards Bulletin Board. | A data ROSC was published in August 2004. |

## Philippines: Table of Common Indicators Required for Surveillance

(As of November 8, 2023)

| | Date of Latest Observation | Date Received | Frequency of Data[7] | Frequency of Reporting[7] | Frequency of Publication[7] |
|---|---|---|---|---|---|
| Exchange rates | 11/8/2023 | 11/8/2023 | D | D | D |
| International reserve assets and reserve liabilities of the monetary authorities[1] | 10/2023 | 11/2023 | M | M | M |
| Reserve/base money | 9/2023 | 10/2023 | D | W | W |
| Broad money | 8/2023 | 10/2023 | M | M | M |
| Central bank balance sheet | 9/2023 | 10/2023 | M | M | M |
| Consolidated balance sheet of the banking system[2] | 8/2023 | 10/2023 | M | M | M |
| Interest rates[3] | 11/8/2023 | 11/8/2023 | D | D | D |
| Consumer price index | 10/2023 | 11/2023 | M | M | M |
| Revenue, expenditure, balance and composition of financing[4]—general government[4] | 2022 | 8/2023 | A | A | A |
| Revenue, expenditure, balance and composition of financing[4]—central government | 9/2023 | 10/2023 | M | M | M |
| Stocks of central government and central government-guaranteed debt[5] | 9/2023 | 10/2023 | M | M | M |
| External current account balance | 6/2023 | 9/2023 | M | Q | Q |
| Exports and imports of goods and services | 6/2023 | 9/2023 | M | Q | Q |
| GDP/GNP | Q2:2023 | 8/2023 | Q | Q | Q |
| Gross external debt | Q2:2023 | 9/2023 | Q | Q | Q |
| International investment position[6] | Q2:2023 | 9/2023 | Q | Q | Q |

[1] Any reserve assets that are pledged of otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.
[2] Foreign, domestic banks, and domestic nonbank financing
[3] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

**Statement by the IMF Staff Representative on the Philippines**
**November 27, 2023**

*This statement provides an update on macroeconomic developments in the Philippines since the staff report (SM/23/231) was issued. It does not alter the thrust of the staff appraisal.*

1. **The Philippine Statistics Authority released the 2023 Q3 national account data which is broadly in line with staff projection**:
   - Growth rebounded to 5.9 percent (y/y) in Q3 2023 from 4.3 percent in Q2 2023, largely supported by a pick-up of government spending.
2. **On November 16, the Monetary Board decided to keep the BSP's Target Reverse Repurchase Rate unchanged at 6.5 percent at its meeting on monetary policy following it's off-cycle 25 basis point hike in late October.**

**Statement by Ms. Yati Kurniati, Executive Director for the Philippines and Ms. Maria Teresa Duenas, Senior Advisor to Executive Director November 27, 2023**

The Philippine authorities would like to thank the IMF team led by Mr. Shanaka Jay Peiris for the constructive engagement and insightful report. The authorities broadly agree with the staff's appraisal and positively note the policy recommendations, most of which are already being implemented. The authorities would also like to thank the IMF for the considerable capacity development and technical assistance provided to support the authorities' reform agenda.

## Recent Macroeconomic Developments

The Philippine economy grew by 7.6 percent in 2022, the highest recorded full-year growth in over four decades and exceeded growth assumption of 6.5-7.5 percent for 2022. For 2023, the economy continues to grow despite several headwinds posting a 5.9 percent growth in the third quarter, a marked improvement from the 4.3 percent growth in the second quarter and considered the fastest growing emerging economy in Asia for the reporting period. The third quarter GDP growth was broad-based, with all major economic sectors posting positive performance. Growth momentum is seen to continue where labor market conditions remain favorable with unemployment returning to pre-pandemic level.

Average inflation rate registered at 5.8 percent in 2022 and 6.4 percent for the first 10 months of 2023. Starting at around 3.0 percent in early 2022, inflation steadily increased driven by food, utilities and operation of personal transport equipment. It reached its peak in January 2023 at 8.7 percent but has since been on a general downtrend. Due to elevated inflation, the Bangko Sentral ng Pilipinas (BSP) raised its policy rate successively by 425 basis points until it reached 6.25 percent in March 2023 and has kept its benchmark interest rates unchanged until September 2023. Recently however, there has been an uptick in inflation due to higher international commodity prices and weather disruptions. On 26 October 2023, the BSP Monetary Board decided to take off-cycle action and raised the target reverse repurchase rate by 25 basis points to 6.50 percent, overnight deposit and lending facilities to 6.0 percent and 7.0 percent respectively, to prevent supply-side price pressures from inducing additional second-round effects and further dislodging inflation expectations. While inflation eased from 6.1 percent in September 2023 to 4.9 percent in October 2023, authorities will continue to prioritize strategies in response to the potential impact of El Niño which is projected to intensify in the coming months until early 2024.

Fiscal performance in 2022 showed a narrowing of the deficit with the unwinding of the pandemic spending and improvement in revenue effort. For the first nine months of 2023, total revenues reached ₱2.84 trillion, higher by 6.8 percent year-on-year. Both tax and non- tax revenues (including grants) registered growth at 6.4 and 10.5 percent, respectively. Meanwhile, government disbursement accelerated significantly from 93.4 percent of the program as of June 2023 to 98.9 percent as of September 2023 mainly driven by robust disbursement in the third quarter. Fourth quarter spending is expected to further improve fueled by accelerated implementation of programs on infrastructure, transport, labor and employment, social protection, and education. As of end September 2023, the debt-to-GDP ratio was at 60.2 percent, below the Medium-Term Fiscal Framework (MTFF) target of 61.2 percent, indicating that authorities remain on track in achieving its fiscal targets.

The Philippine financial system maintained strong performance in the third quarter of 2023. On the back of improving macroeconomic conditions as well as prudent regulatory and supervisory reforms, the banking sector remained a key provider of credit to the economy. Banks' assets increased by 9.0 percent year-on-year to ₱24.0 trillion in September 2023, and were largely channeled into loans, at 52.5 percent, and mainly financed by deposits. The full reopening of the domestic economy contributed to improved credit climate where banks' loans rose by 7.8 percent, reaching ₱13.1 trillion. Lending remained broad-based and supportive of key productive sectors, including households. Alongside improved economic indicators and sustained growth in credit activity, loan quality remained satisfactory, supported by ample loan-loss reserves. As of September 2023, the non-performing loan (NPL) ratio was at 3.4 percent, while the NPL coverage ratio was at 103.6 percent. The BSP is confident that the NPLs of the banking system will stay manageable, owing to banks' prudent credit standards and robust risk governance framework.

**Outlook, Risks and Policy Directions**

Amid external and domestic headwinds, the authorities are optimistic that the 6.0-7.0 percent target growth rate for 2023 is attainable. National government agencies and local government units positively responded to the call to implement catch-up expenditure plans aimed at improving the delivery of public services under the 2023 public expenditure program and this momentum is expected to carry on for the next months. Intensifying supply-side interventions and demand-side management can help moderate inflation which can prop up consumer and business sentiment. This includes ensuring strategic importation of key commodities, providing preemptive measures to address El Niño, strengthening biosecurity, and enhancing agricultural productivity. With a whole-of-government approach, the authorities are pushing growth over the near term across three main pillars: managing inflation to reinforce its general decline; deploying a catch-up plan to accelerate government spending; and pursuing reforms and rolling out strategic public infrastructure projects. For the medium-term, economic outlook is consistent with the headline targets stated in the Philippine Development Plan (PDP) 2023-2028.

*Maintaining Appropriate Monetary Stance*

The balance of risks to the inflation outlook leans toward the upside, due mainly to the potential impact of higher transport charges, electricity rates, international oil prices, and minimum wage adjustments in areas outside the National Capital Region. Meanwhile, the effect of a weaker-than-expected global recovery as well as government measures to mitigate the effects of El Niño weather conditions could temper inflationary impulses. It is expected that the inflation rate will return to the target range of 2.0 to 4.0 percent as the administration, through the Inter-Agency

Committee on Inflation and Market Outlook, provides proactive measures to address the primary drivers of inflation. This, together with appropriate monetary policy actions of the BSP, will help ensure a return to the inflation target over the policy horizon.

Looking ahead, the BSP Monetary Board deems it necessary to keep monetary policy settings tighter for longer until inflationary expectations are better anchored and a sustained downward trend in inflation becomes evident. It will continue to be data-dependent and will stand ready to implement follow-through monetary policy action as necessary to bring inflation back to a target-consistent path. The BSP will continue to closely monitor developments affecting the outlook for inflation in line with its data dependent approach to monetary policy formulation.

*Pursuing Fiscal Consolidation*

The government ensures that its fiscal policy is aligned with monetary policy by firmly implementing a fiscal consolidation path guided by the MTFF. The framework contains concrete fiscal targets and explicit measures, supported by sustained government commitment that can help establish fiscal credibility. Among the targets set under the framework includes maintaining annual economic growth rate between 6.0 and 7.0 percent in 2023 and between 6.5 and 8.0 percent from 2024 to 2028. This will be pursued in part through infrastructure investments at 5 to 6 percent of GDP annually. The fiscal consolidation strategy aims to bring down debt-to-GDP ratio from 60.9 percent as of end 2022 to less than 60 percent by 2025, as well as cut the deficit-to-GDP ratio from 7.3 percent as of end 2022 to 3.0 percent by 2028.

Authorities will also continue to prioritize improving tax administration by pushing for various digitalization and modernization efforts, and ensuring that tax compliance is easy, efficient, and accessible. Plans are under way to expand the tax base by implementing several tax policies such as the introduction of value added tax on digital service providers and excise taxes on premixed alcoholic beverages; food and beverages with high sugar, fat, or sodium content; and environmentally damaging products and activities such as single-use plastics and mining. The proposed tax revenue measures will help boost revenue collections by 0.5 percent to 0.6 percent from 2024 to 2028. Meanwhile, different government agencies continue to digitize their processes to promote efficient and fair tax administration. Parallel to this, reforms on government expenditures are also being implemented. The Progressive Budgeting for Better and Modernized Governance Act will improve the ability of the government to deliver direct, immediate, and substantial services, while the National Government Rightsizing Program will entail the regularization, merging, restructuring, abolition, or transfer of government agencies to create a more efficient bureaucracy.

*Strengthening Financial Stability*

The Philippine financial system continues to be supportive of the financing needs of the economy. The banking sector remains resilient and stable with a strong balance sheet, profitable operations, sufficient capital and liquidity buffers, and ample provision for probable losses. Amid growing resources, deposits and earnings, Philippine banks remain well capitalized and highly liquid, with a capital adequacy ratio and key liquidity ratios exceeding the BSP regulatory and international standards. Authorities also recognize that financial conglomerates have a strong presence in the financial system. As such, the BSP pursued initiatives to strengthen its supervision by establishing a supervisory college and enhanced its monitoring and reporting of credit risks by introducing the Comprehensive Credit and Equity Exposures Report.

The BSP is steadfast in ensuring that the Philippine financial system is safe and sound in keeping with its financial stability mandate. It consistently refines its frameworks, policies, and existing regulations to ensure that emerging risks and vulnerabilities in the banking environment are identified, monitored, and appropriately addressed. The BSP also adopts an enhanced Prompt Corrective Action (PCA) framework which sets the conditions or events that would trigger the enforcement of PCA, the measures that may be taken as PCA and the sanctions on non-compliance with the PCA plan. Plans are underway to constitute a technical working group which will be responsible for the implementation of the review of PCA action and the creation of a Resolution Unit that will establish resolution tools, draft guidelines on resolvability assessment and assess domestically systemically important banks. The BSP is also moving forward on revamping the bank resolution framework and has an ongoing initiative to draft a resolution manual.

*Enhancing Structural Reforms*

Authorities see a favorable growth outlook supported by the investment-ready policy environment and shaped by the enactment of proactive structural reforms. The pursuit of these reforms combined with the effective implementation of appropriate policies will help ensure that the latest macroeconomic assumptions approved by the Development Budget Coordination Committee will be attained. In delivering the reforms, the government approved early this year a list of Infrastructure Flagship Projects totaling to 197 projects worth around ₱8.7 trillion. These projects will improve physical and digital connectivity, upgrade health, transport, agriculture and energy sectors, and strengthen infrastructure against climate-related risks.

On trade, the 2023-2028 Philippine Export Development Plan encapsulates the government's plan to shift from exporting commodities and intermediate goods to high-value products and services. Potential export performers identified are products based on or originating in agriculture such as natural fiber-based textiles, aquaculture products, coconut water, and purple yam. Continued adoption of policies to further improve the country's export competitiveness remains essential. On regional cooperation, the entry into force of Regional Comprehensive Economic Partnership for the Philippines on 2 June 2023 is estimated to result in improving the trade balance by as much as US$128 million, raising real GDP by 1.9 percent, and lowering poverty by 3.6 percent by 2031.

On digital connectivity, the development of the country's digital infrastructure has steadily improved, catalyzed by technological advancements and the increasing demand for connectivity. Through the National Broadband Program, the government continues to roll out broadband infrastructure towards addressing digital divide which include connecting the various islands through fiber optic cables, setting up cable landing stations to serve as gateway to international connectivity, and accelerating tower build up to cater to geographically isolated areas.

On climate change adaptation and mitigation objectives, the PDP 2023-2028 prioritizes the creation of an enabling environment for climate resilient infrastructure by: (a) boosting multi-stakeholder partnership in building and translating knowledge to climate change adaptation and disaster risk reduction, (b) improving national and local climate and risk data and information management system; and (c) scaling up of sustainable finance from public and private sources through alignment of priorities. These support medium-term strategies that focus on integrating climate resilience in public infrastructure planning and design, and increasing investments on climate resilient infrastructure for agriculture, connectivity (physical and digital), water, energy, and social sectors.

On the inclusion in the Financial Action Task Force (FATF) grey list, the Philippines has successfully demonstrated progress on several action items such as the registration requirements and application of sanctions to unregistered and illegal remittance operators; prioritization of asset tracing and confiscation at the point of conviction in criminal cases in line with the Philippines' risk profile; and provision and publication of guidance for the de- listing, unfreezing procedures related to proliferation financing of weapons of mass destruction, among others. The authorities are continuously addressing the remaining deficiencies. One of the most recent initiatives is the adoption of the National Anti-Money Laundering/Combating the Financing of Terrorism (AML/CTF) Strategy for 2023-2027 which aims to strengthen the country's AML/CTF regime and enable the Philippines to exit the FATF grey list.

Finally, the Philippine authorities would like to reiterate their deep appreciation for the full support from the IMF, particularly in the areas of surveillance, capacity development, and policy dialogue. The authorities continue to value the Fund's advice to identify potential risks and recommend appropriate policy responses that can enhance the country's economic stability and growth.