Chapter 15

Ensuring Sound Macroeconomic Policy

The Philippine economy faced and overcame various headwinds in the first half of the Plan period. Macroeconomic fundamentals remain strong and stable, resulting in a credit rating upgrade for the country. The fiscal position also remains sustainable and supportive of growth with the pursuit of tax reforms, improved spending efficiency, and prudent debt management. Headline inflation rate was generally within target with the implementation of appropriate monetary and non-monetary policy measures. The financial sector remains stable, with significant strides in expanding inclusiveness by simplifying requirements for opening basic bank deposit accounts and creating a legal framework for the use of non-traditional collateral. Moreover, the external sector remains resilient, characterized by a manageable current account deficit and modest trade growth despite disruptions in global markets.

This strong starting position to be complemented with strategic and responsive measures will enable prompt recovery from the downturn caused by the COVID-19 pandemic. Towards a healthy and resilient Philippines, fiscal policy will be made more responsive through enabling budget and policies, enhanced local government units (LGUs) capacity, and improved private sector participation. Targeted supervisory actions and reforms that address the impact of the pandemic remain crucial in fostering the resilience of the country's financial system. Trade partnerships will be intensified, while products and markets will be diversified and scaled up to take advantage of shifts in business processes and consumer preferences under the New Normal.

Assessment and Challenges

Assessment: Over the past three years, substantial improvement in spending performance outpaced an increase in revenue collections, leading to an expansion of the government's fiscal deficit to 3.4 percent of Gross Domestic Product (GDP) by 2019. Nevertheless, the ratio of government outstanding debt to GDP declined as the expansion of the economy outpaced the accumulation of debt. However, this trajectory is expected to be reversed as the pandemic subdues economic activities. Reduced revenues and increased spending on pandemic recovery measures are seen to further elevate the fiscal deficit and consequently, raise the country's debt ratio. Inflationary pressures of 2018 dissipated in 2019, with headline inflation averaging at 2.5 percent – well within the government's target, as appropriate monetary and non-monetary policy measures were implemented. Meanwhile, the financial sector remains sound and has become more inclusive, supported by various reforms such as the establishment of rules on the introduction of Basic Deposit Accounts; the expansion of low-cost financial touchpoints; and legislation allowing the use of moveable collateral, and easier customer identification.[1] These reforms are complemented by an enabling regulatory framework establishing a retail payment system. The outbreak of the pandemic drove up demand

[1] *Philippine Identification System Act (RA 11055) and the Personal Property Security Act of 2018 (RA 11057).*

for digital financial services as people adhered to social distancing measures. There has been an increased preference for doing basic financial transactions online such as bills payment and fund transfers. On the other hand, the possibility of increased demand for insurance lingers with the increase in infections and fatalities caused by the pandemic.

For the external sector, merchandise goods exports and services posted modest growth during the first half of the Plan period boosted by improved sales of major export products such as electronic products and fruits and vegetables. Thus, the sector was able to exceed the targets for 2017 to 2019, while the widening trade-in-goods deficit was partially offset by the trade-in-services surplus. The current account deficit – recorded at 0.9 percent of GDP in 2019 – is expected to reverse into a surplus in the near term amid a significant deceleration in goods imports mainly due to the sharp decline in global crude oil prices, subdued domestic demand, and disruptions in global supply chains. This is notwithstanding the expected lower receipts from goods exports, trade-in-services, and remittance inflows. The pandemic is expected to reverse gains on trade in goods and services performance with overall global trade seen to slow down (*see Chapter 2*). Exports from North America and Asia are expected to be hardest hit with trade from sectors with complex value chains, such as electronics and automotive products, expected to decline. Traders are also expected to rely more on online processing of trade documents to facilitate seamless movement of cargo. Capital flows have been increasingly volatile as risk aversion against developing countries led to capital flight to safe havens.

Challenges: The budget strain in the near to medium term may impede planned public investments. The implementation of the Supreme Court ruling on the Mandanas Case in 2022 further adds pressure on the tight fiscal position. Institutional bottlenecks and inadequate absorptive capacity also continue to pose risks to accelerating the implementation of much-needed infrastructure projects.

Similarly, financial institutions that serve vulnerable sectors may lack the capability to respond to the increased need for digital financial services (DFS). On the other end, low-income households may lack awareness of DFS available to them, as well as the knowledge needed to make sound financial decisions. Cybersecurity threats also pose a challenge. For the external sector, portfolio and direct investments may further slow down as recent developments have led to an overall risk aversion of foreign investors to emerging markets as well as an erosion of business confidence. In terms of trade in goods and services, an overall weakening in global trade in goods and services, including travel and tourism is expected (*see Chapter 2*).

Targets

The targets for revenue and tax effort were revised downwards, taking into account muted economic activity due to the COVID-19 pandemic. The consequent changes in programmed spending, as approved by the Development Budget Coordination Committee (DBCC) in July 2020, were reflected in the revised targets for the national government expenditure performance indicators. These changes take into account the government's efforts to support the country's economic recovery and the transition to the New Normal. The higher Internal Revenue Allocation (IRA) in 2022 as provided under the Supreme Court's decision on Mandanas case is also reflected in the revised targets. These changes, in turn, were reflected in the upward revision of the targets for the deficit, debt, and interest payments ratio.

The revised targets for the ratio of locally sourced LGU income to total current operating income reflect the aforementioned increase in IRA. The locally-sourced income of LGUs in absolute terms was included as an additional indicator to measure the capacity of LGUs to generate their sources of revenues.

The following were included as additional indicators in light of the developments arising from the pandemic: (a) VAT revenues from the digital economy to capture the increase in e-commerce activities[2] *(see Chapter 9)*, (b) share of health sector spending on account of the government's shift in focus towards improving health systems *(see Chapter 10)*, (c) utilization of the local development fund, and (d) utilization of the Special Education Fund[2] to measure the capacity of LGUs to implement their programs, activities, and projects.

The ratio of the financial system's assets to GDP has been adopted to facilitate benchmarking of the depth of the country's financial system. Likewise, equity market capitalization relative to GDP and size of the local currency bond market in percent of GDP replaced old indicators to provide a better measure of domestic capital market development.

On financial inclusion, Plan targets were revised upward for the indicators on the number of access points per 10,000 adults and the proportion of adults (15 years and older) with an account at a bank or other financial institutions or with a mobile-money-service provider, as the initial end-of-plan targets have already been met. To gauge the extent to which digital technology transforms financial inclusion and to complement the indicator on account penetration which is only able to generate data every two years, higher frequency indicators, such as the volume of InstaPay transfers[2] and retail e-payments, were adopted. The updated targets for microinsurance penetration include insured principal members and their dependents. The value of microfinance loans provided by microfinance non-government organizations (NGOs) accredited under the Microfinance NGOs Act was added as a measure of financial inclusion, in line with the law's passage and policy.

The targets for exports of goods and services were revised downwards to account for the effects of COVID-19. Likewise, targets were recalibrated to reflect the projected current account surplus due to the narrower trade-in-goods deficit, offsetting the lower receipts from trade-in-services.

Table 15.1 Revised Plan Targets to Sustain a Sound, Stable, and Supportive Macroeconomic Environment, 2020-2022

INDICATOR	BASELINE	TARGETS			
		2020* (ORIGINAL PLAN TARGETS)	2021	2022	End of Plan
Sub-Sector Outcome 1.1. Responsive, strategic, supportive, and sustainable fiscal sector					
Government Revenue to GDP ratio improved (%)[1/]	15.2 (2016)	17.0	13.2	13.3	13.3
Tax revenue to GDP ratio improved (%)[1/]	13.7 (2016)	16.2	12.3	12.5	12.5
Primary expenditure to GDP ratio maintained above baseline (%)[1/ 2/]	15.5 (2016)	18.1	19.1	17.9	17.9

[2] *Targets for the indicator are reflected in Chapter 15 of the PDP Results Matrices.*

INDICATOR	BASELINE	TARGETS			
		2020* (ORIGINAL PLAN TARGETS)	2021	2022	End of Plan
Percentage share of interest payments in the total disbursements managed (%)[1/3/]	11.9 (2016)	9.7	11.0-14.0	12.0-15.0	12.0-15.0
Economic service sector expenditure to GDP maintained above 5.0 percent (%)[1/ 4/]	5.7 (2016)	5.7	6.5[5/]	5.75[5/]	5.7
Social service sector expenditure to GDP maintained above 7 percent (%)[1/ 4/]	6.7 (2016)	7.3	8.15[5/]	7.95[5/]	7.9
Ratio of discretionary expenditure to total budget maintained above 30.0 percent (%)[1/ 4/ 6/]	42.7 (2016)	41.2 (Actual)	40.15[5/]	32.45[5/]	32.4
Ratio of Health Sector expenditure to total budget increased (%)[4/]	4.4 (2016)[7/]	4.5	4.6[8/]	4.1[8/]	4.1
Utilization of current year's budget increasing[9/]	92.6 (2018)[10/]	increasing	increasing	increasing	increasing
Manageable NG fiscal deficit to GDP ratio maintained (%)[1/ 11/]	2.4 (2016)	3.0	8.5	7.2	7.2
Manageable outstanding NG debt stock to GDP ratio maintained (%)[1/12/]	42.1 (2016)	36.8	58.0-61.0	60.0-63.0	60.0-63.0
Manageable consolidated public sector balance as a share of GDP maintained (%)[1/]	-0.1 (2016)	-1.0	-5.8	n.a.[13/]	n.a.[13/]
Investment-grade credit rating sustained	Stable/ Positive (2016)	At least Stable/ Positive	Sustained investment-grade credit rating	Sustained investment-grade credit rating	Sustained investment-grade credit rating
Ratio of locally sourced LGU income to total current operating income maintained at or above 15.0 percent (%)[14/]	33.0 (2016)	36.2	21.0	15.0	15.0
Locally-sourced LGU income increased (PHP, billions)[15/]	179.8 (2016)	256.5	144.9	159.4	159.4
Utilization of local development fund improved (%)[16/]	80.0 (2016)	100.0	100.0	100.0	100.0
Sub-Sector Outcome 1.2. Resilient and inclusive monetary and financial sector					
Low and stable inflation rate achieved %)	1.3 (2012=100); 1.8 (2006=100)	2.0-4.0	2.0-4.0	2.0-4.0	2.0-4.0
Ratio of Financial System's Total Assets to GDP maintained (%)	123.4 (2016)	130.0	120.0	125.0	125.0
Equity market capitalization relative to GDP (%)	95.4 (2016)	107	73.3	78.5	78.5
Size of local currency bond market in % of GDP	32.2 (2016)	45	39.2	43.6	43.6

INDICATOR	BASELINE	TARGETS			
		2020* (ORIGINAL PLAN TARGETS)	2021	2022	End of Plan
Annual value of microfinance loans increased (PHP billion)[17/]	52.7 (2016)	>65.4	>95	>104.7	>104.7
Number of access points per 10,000 adults increased (cumulative)[18/]	10.1 (2016)	>10	>13	>14	>14
Proportion of adults (15 years and older) with an account at a bank or other financial institutions or with a mobile-money-service provider	22 (2015)	Not a survey year	>40	Not a survey year	>40
Volume of retail e-payments in the country (% of total payments)[19/]	10.0 (2018)			40.0	40.0
Microinsurance penetration (% of total population)[20/]	27.2 (2016)	34.0	40.8	44.8	44.8
Sub-sector Outcome 1.3. Sustainable and resilient external sector					
Exports of goods increased (USD billion, cumulative) [1/]	42.7 (2016)	54.8-56.9	46.1-47.1	47.9-49.4	47.9-49.4
Exports of services increased (USD billion, cumulative) [1/]	31.2 (2016)	47.2-49.0	37.0-37.8	40.0-41.2	40.0-41.2
Sustainable current account balance to GDP ratio achieved	-0.4 (2016)	0.01	0.8[21/]	NA	NA

**2020 original targets set/approved in 2016/prior to the pandemic retained.*
1/ Targets for 2021-2022 are based on the macroeconomic assumptions and fiscal program approved by the DBCC on July 28, 2020 via Ad Referendum.
2/ Albeit the downward trajectory of the 2021 and 2022 projections for the ratio of primary expenditure to GDP due to higher interest payments, these projections will remain above the actual 2016 baseline value. Thus, the consequent re-statement and revision of targets of the indicator.
3/ Figures are projections on the ratio of interest payments to total disbursements, which is foreseen to increase over the medium-term even when compared to the baseline in view of the government's effort to borrow prudently to support the country's economic recovery.
4/ Targets are based on the emerging proposed FY 2021 budget level, and consistent with the macroeconomic assumptions and fiscal program approved by the DBCC on July 28, 2020 via Ad Referendum. Subject to further refinements based on the FY 2021 National Expenditure Program (NEP) and/or Budget of Expenditures and Sources of Financing (BESF).
5/ Targets for 2021 and 2022 for selected fiscal indicators will be on a downward trajectory due to limited fiscal space arising from the combined impact of lower revenue projections and SC's ruling on the Mandanas Case. Subject to further refinements based on the FY 2021 National Expenditure Program (NEP) and/or Budget of Expenditures and Sources of Financing (BESF).
6/ Discretionary expenditure and total budget pertain to cash-based appropriations level. Annual Plan targets for 2021-2022 and actual accomplishments for 2019-2020 are lower compared to actual accomplishments in 2016-2018 due to the transition from obligation-based to cash-based budgeting system in 2019.
7/Actual 2016 baseline value is in obligation-based appropriations level while medium-term targets for 2020-2022 are in cash-based appropriations level.
8/ Lower target for 2022 relative to the rest of the annual Plan targets reflects the impact of lower revenue projections and SC's ruling on the Mandanas Case. Likewise, health is a devolved function. Subject to further refinements based on the FY 2021 National Expenditure Program (NEP) and/or Budget of Expenditures and Sources of Financing (BESF).
9/ The indicator measures how fast implementing agencies can obligate/contract out their funds budgeted for the current year. The current year's budget pertains to the cash-based appropriations level.
10/ The 2018 actual accomplishment will serve as the baseline value for the indicator to reflect the introduction of the Department of Budget and Management transitional reforms to cash-based budgeting system. The updated 2019-2022 targets are in cash-based appropriations level.
11/ Albeit the upward revision of the targets for 2021 and 2022 due to the combined impact of lower revenue projections and higher disbursements in line with the government's response to address the socio-economic impact of COVID-19, fiscal

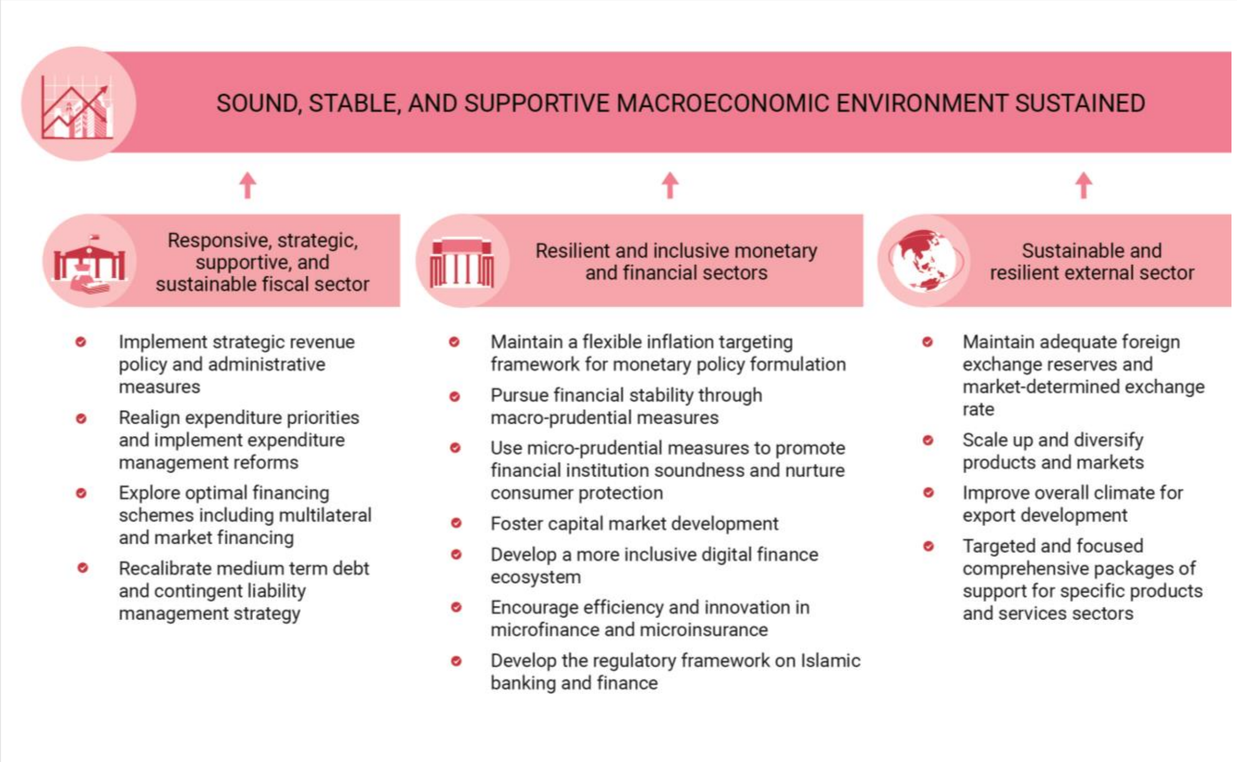
consolidation (as seen in the downward trajectory of the deficit by the end of the Plan period) will take place to ensure prudent fiscal management.
12/ Targets for 2021 and 2022 were revised upwards due to higher deficit assumption and borrowing requirement. Despite this, the revised targets cluster along the 60% emerging economy threshold indicated in most literature.
13/ Target for 2022 is not available as some components of the indicator could only be projected until 2021.
14/ Downward revision of the target for 2021 is due to expected slower economic activity (versus original target), complemented with higher Internal Revenue Allocation for 2021 resulting from the implementation of TRAIN in 2018; while the lower target for 2022 relative to the rest of the annual Plan targets reflects the impact of the SC's ruling on the Mandanas case, which will significantly increase IRA.
15/ It is estimated that LGUs would miss around 30% to 50% of their original targets for FY2020 to FY2022 due to the financial hardship and economic impact brought about by the COVID-19 pandemic.
16/ Figures are based on Bureau of Local Government Finance's projections.
17/ Microfinance figures include banks and microfinance NGOs. Data with the Securities and Exchange Commission is only based on the Microfinance NGOs accredited by the MicroFinance NGO Regulatory Council.
18/ Access points are the regulated entities where both cash-in and cash-out transactions can be performed. These include banks, non-stock savings and loan associations, cooperatives with financial services, microfinance NGOs, pawnshops, money service businesses, e-money agents, cash agents, and other non-bank financial institutions.
19/ Share of retail e-payments to total number of retail payments.
20/ Number of people with microinsurance coverage consists of insured principal members and dependents.
21/ Figures are Bangko Sentral ng Pilipinas (BSP) projections approved by the Monetary Board on October 08, 2020.

Strategic Framework

To achieve the targets above and consequently sustain a sound, stable, and supportive macroeconomic environment, the following sub-sector outcomes will be pursued: (a) responsive, strategic, supportive, and sustainable fiscal sector; (b) resilient and inclusive monetary and financial sectors; and (c) sustainable and resilient external sector.

Amidst the challenges brought about by the pandemic and the transition to the New Normal and the increasing pressure on the national government's fiscal position, responsiveness, and sustainability were included in the sub-sector outcome under the fiscal sector, while the third sub-sector outcome was expanded to cover the entire external sector (from external trade sector only previously). The figure below shows the updated framework.

Figure 15.1. Strategic Framework to Sustain a Sound, Stable, and Supportive Macroeconomic Environment



Strategies

Responsive, strategic, supportive, and sustainable fiscal sector

Strategically realign and reprioritize expenditure. To facilitate transition and adjustment to the New Normal, the government will implement strategic realignment of its budget and reprioritize its expenditures over the near-term. Priority will be given to health-related expenditures, disaster-risk management, food security, digital economy/government, and growth-inducing expenditures such as crucial and shovel-ready infrastructure projects, among others.

Pursue institutional reforms to ensure timely execution of projects. To complement administrative improvements in budget execution such as the implementation of the Budget and Treasury Management System, institutional reforms will be introduced to address persistent bottlenecks. These include the revision of the guidelines on the release of funds for foreign-assisted projects and its alignment with the cash-based budgeting system. Existing Commission on Audit (COA) issuances will be consolidated and codified to resolve ambiguities and inconsistencies. The 1976 Government Auditing Code of the Philippines[3] will also be updated. Furthermore, the implementing rules and regulations of the Government Procurement Reform

[3] *Presidential Decree No. 1445*

Act will be further reviewed to address procurement delays. To minimize undue delay in the implementation of crucial infrastructure projects during election periods, amendments to the exemption provisions under the Omnibus Election Code will be pursued. Moreover, to make the budget more responsive to crises and other unprecedented events, institutional reforms to increase flexibility in the emergency use of funds, such as the LGU development fund, will be considered.

Implement transition plans for fully devolved functions to LGUs, including capacity development and intensive public information campaign. To ease pressure coming from the implementation of the SC ruling on the Mandanas case, concerned agencies shall be tasked to prepare transition plans with well-defined parameters for functions and services that are fully devolved to LGUs.[4] The transition plans include the definition of standards for the delivery of devolved services, clear delineation of responsibilities between the national government and the LGUs, and, the strategy for capacity development of LGUs, which will involve training for LGUs on development planning. The implementation of the transition plans will be coupled with intensive public information campaigns on the shift in responsibilities in the delivery of basic services which will help increase LGU accountability. Cost-sharing schemes between the national government and LGUs for projects that are local in nature but benefit multiple LGUs, will also be explored.

Fast-track the implementation of priority tax reform measures. Amid muted economic activity, the passage of growth-enhancing revenue measures, such as the Corporate Recovery and Tax Incentives for Enterprise Act (CREATE), will provide immediate relief to businesses and encourage investments that will aid the economy's recovery. To further promote crucial investment and innovation, it is important for the government to utilize a regulatory sandbox approach to help develop supportive regulatory frameworks for emerging industries under the new normal *(see Chapters 5 and 16).* Subsequently, the pursuit of the digital transformation agenda, especially the establishment and institutionalization of a digital taxation framework, will help the government manage the challenges and reap the benefits of the digital economy. Meanwhile, once recovery is underway, the passage of the remaining packages of the tax reform program will help sustain growth by correcting inefficiencies and leveling the playing field. These policy reforms will be complemented by tax administration measures, particularly the fuel marking and Electronic Receipt and Invoice System, which will enable the government to recoup needed revenues.

Increase local sources of revenue by introducing legislated and non-legislated measures. Despite the higher IRA under the SC ruling on the Mandanas case, the need to pursue measures that will improve the collection of locally sourced revenues remains. Foremost is the passage of the Real Property Valuation reform, which can help augment property tax collection of LGUs. Legislative measures will also be supplemented with capacity building activities to enable LGUs to access other sources of financing, such as official development grants.

Encourage greater private sector involvement to compensate for the narrower fiscal space. Private sector participation through various public-private partnership (PPP) modalities will be tapped to ease pressure on the national government's fiscal position. PPP can also supplement the limited capacities in project implementation at the LGU level.

[4] *The crafting of these transition plans will be guided by the framework being developed by the Core Technical Working Group (TWG) on Full Devolution Efforts. The members of the TWG are DBM, National Economic and Development Authority, Department of Interior and Local Government, Department of Finance, and Civil Service Commission*

Explore optimal financing schemes including multilateral and market financing portfolio. The national government will explore various financing schemes, including multilateral institutions to ensure sufficient resources are available to support the economic recovery plan. Furthermore, the Bureau of the Treasury will tap the local market through local bonds issuance and the offshore commercial markets through issuance of dollar-denominated debt papers, "panda" bonds, and "samurai" bonds for additional funding sources.

Recalibrate debt and contingent liability management by: (a) continuing to adopt a strategic and sustainable financing mix in favor of domestic sources and optimization of Official Development Assistance resource; (b) further diversifying funding sources and instruments; and (c) improving the liquidity of the government securities market. These strategies can be supported by the Local Currency Debt Market Development Roadmap – a reform package that focuses on deepening market liquidity, improving price discovery, and enhancing regulatory oversight and surveillance.[5] In addition, ensuring that risks related to contingent liabilities are well-managed could safeguard resilience of the country's fiscal position to future shocks, such as pandemics. Overall, continuously developing the domestic capital market *(see Monetary and Financial Sectors)* and building safeguards against external risks *(see External Sector)* will complement the strategies mentioned above.

Communicate the recovery plan and the temporary nature of deviation from fiscal program to calm markets. To manage market expectations and ensure stability, the national government will carefully and clearly communicate its recovery plan, as well as the temporary nature of deviation from the medium-term fiscal program. It is important to highlight that the deviation from the medium-term fiscal program is the result of the national government's effort to mitigate the impact of the COVID-19 pandemic on the economy.

Resilient and inclusive monetary and financial sectors

Strengthen the transmission of monetary policy to the economy. The BSP will continue to refine its monetary operations, including through the interest rate corridor system, to enhance its capacity in guiding short-term market interest rates to move closely with the policy rate. The amendments to the BSP's charter – particularly on allowing it to issue its own securities – will further expand its policy toolkit and give it more flexibility in determining the size and timing of its monetary operations. The BSP is ready to ease monetary policy settings further and to deploy regulatory relief measures as needed, especially amid the sustained uncertainty brought about by the COVID-19 pandemic. It will continue to vigilantly monitor domestic and international developments for any emerging risks to the outlook for both inflation and economic activity.

Pursue financial stability through macro-prudential measures. Systemic risks have become more prevalent, given the increasing complexity of financial transactions. The Financial Stability Agenda is thus necessarily pre-emptive and will be geared towards containing systemic risks such as the COVID-19 crisis within prudent levels. Conducting macro-prudential stress test exercises is essential in quantifying how risks in the financial markets can be amplified and can create adverse implications for the real economy, and vice-versa. The recently approved Macroprudential Policy Strategy Framework by the Financial Stability Coordination Council (FSCC) and the Systemic Crisis Management Framework currently

[5] *Bureau of the Treasury (2017). The Philippine Roadmap: Local Currency Debt Market Development. Retrieved: http://www.treasury.gov.ph/wp-content/uploads/2017/10/Local-Currency-Debt-Market-Development-Roadmap_ppt-1.pdf.*

underway will provide guidance on how financial authorities will execute the financial stability agenda and handle systemic risks in the Philippine financial system.

Develop a more inclusive digital finance ecosystem. To ensure the benefits of financial digitalization are optimized, particularly by vulnerable sectors and MSMEs, the country's digital financial infrastructure will be developed, including the regulatory frameworks and platforms that facilitate the scope, scale and reach of DFS. Among others, the Philippine Identification System (PhilSys), QR Ph, digital banking,[6] and open banking are essential pieces in improving this infrastructure. The widespread adoption of formal financial services remains a priority and will be promoted by leveraging on compelling use cases for digital payments (e.g., bills payment, receipt of wages, social transfers, payment of government fees, etc.). This will be complemented by consumer empowerment through digital financial literacy and consumer protection policies, including for OFs and their families (*see Chapter 21*).

Encourage efficiency and innovation in microfinance and microinsurance for the domestic market. The ability of microfinance institutions to provide digital financial services will be enhanced. Private insurance providers will be encouraged to engage in the delivery of microinsurance for agriculture, in addition to the existing micro-health and pre-need services.

Foster capital market development to secure a well-functioning financial market that is critical to financial stability. Developing the domestic capital market and increasing the efficiency in trading of securities will be facilitated by policies such as the use of forwards in lieu of spot prices, consolidation of the current exposures into fewer but deeper benchmark tenors, transparent and accessible pricing, and expansion of local investment options. Increased transparency such as through a timely disclosure of delayed payments and contracts with cross-default provisions will help boost investor confidence. Passage of the Collective Investment Schemes (CIS) Act, will harmonize its tax and regulatory framework, provide an even playing field, and the same level of protection to the investing public. The SEC is drafting the rules on Corporate Debt Funds, which will invest primarily in debt papers of large corporations and medium-sized enterprises that need liquidity to support their capital and operating costs to sustain their businesses, especially those affected by the pandemic. On the other hand, the passage of the proposed Package 4 of the Comprehensive Tax Reform Program (CTRP) can level the playing field and remove tax arbitrage between subsectors of finance by reducing and harmonizing withholding taxes across instruments and minimizing friction costs by eliminating the Initial Public Offering tax.

Foster growth of green and sustainable finance market. The SEC has issued regulations and guidelines on the issuance of green, social, and sustainable bonds that are aligned with ASEAN standards. Further, it has collaborated with multinational corporations such as the Asian Development Bank (ADB) to seek assistance in developing the market. With the increasing uptake of green bonds in the country, the agency is currently studying the possible publication of guidance for issuing transition and sustainability-linked bonds to provide direction for issuers and assurance for both domestic and foreign investors.

Support reforms and initiatives that aim to develop the domestic financial market and expand consumer protection. The proposed Financial Consumer Protection Law will provide a comprehensive financial consumer protection regime and empower financial regulators to implement specific enforcement actions.

[6] *The Monetary Board approved the Digital Banking Framework which recognizes digital bank as a new bank category that is separate and distinct from the existing bank classification. Digital bank is defined as a bank that offers financial products and services that are processed end-to-end through a digital platform and/or electronic channels with no physical branches. (https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemId=5617)*

The establishment of digital supply chain financing, credit risk database, and online collateral registry will enhance MSME access to finance. To implement the Personal Property Security Act, a personal property security registry will be developed by the Land Registration Authority. The amendments to the Warehouse Receipts Law of 1912 seek to establish an online registry system where all electronic warehouse receipts can be lodged and accessed. Lastly, agriculture insurance, guarantee programs, and other mechanisms that address risks in the agriculture sector will be put in place to strengthen agricultural financing *(see Chapter 8)*.

Develop the regulatory framework for Islamic finance in the country. The Regulation and Organization of Islamic Banks Act was signed into law in 2019. There were also provisions on Islamic banking contained in the Bangsamoro Organic Law. The BSP has issued drafted circulars on the guidelines on the establishment of Islamic banks and Islamic banking units, and the guidelines on the Shari'ah Governance Framework. In addition, there is an ongoing technical assistance from the ADB to expand Islamic financial services in the Philippines, which include capacity building programs to discuss Islamic finance.

Use of micro-prudential measures to promote financial institution soundness and nurture consumer protection. The resilience of financial systems depends on sound regulations and supervision from monetary authorities. Amid the COVID-19 crisis, regulatory relief measures have been implemented to support financial institutions and ensure liquidity flow into the economy. Among others, these include the use of capital conservation and liquidity buffers to absorb losses and support financing requirements of the overall economy[7] and authorizing banks to book their allowance for credit losses on a staggered basis for a maximum period of five years.[8] Consistent with BSP's prudential framework, requests for the extension of eligibility period for these measures will be evaluated and handled on a case-by-case basis. In this manner, targeted and temporary supervisory actions will be taken and blanket reduction or suspension of micro-prudential measures will be avoided in dealing with the temporary impacts of the pandemic. Communication and transparency between the financial institutions, regulators, and the public will remain essential to provide a true picture of the financial position of an institution and guide regulators in designing appropriate policy responses.[9]

Strengthen monitoring of insurance sector and expand information campaigns on available products and services. The economic impact of COVID-19 outbreak on the insurance sector is significant and multi-faceted. As the COVID-19 pandemic accentuated the need for insurance services and products, intensified informational campaigns on available products and services will be necessary to reach the public. Improved insurance literacy will help protect consumer interest and enable them to make sound and well-informed financial decisions. The rise in insurance claims,[10] coupled with the possibility of insurance companies including pandemics in the coverage of their future policies, will likely result in an increase in insurance premiums in the near-term. The possible surge in demand for insurance products may give rise to insurance frauds, which will affect both consumers and insurers. As such, there is a need to strengthen the monitoring

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[7] *Memorandum No. M-2020-039 dated 4 May 2020. http://www.bsp.gov.ph/downloads/regulations/attachments/2020/m039.pdf*
[8] *Memorandum No. M-2020-008 dated 14 March 2020. http://www.bsp.gov.ph/downloads/regulations/attachments/2020/m008.pdf*
[9] *International Monetary Fund. (May 13, 2020). Banking Sector Regulatory and Supervisory Response to Deal with Coronavirus Impact (with Q and A). Retrieved from International Monetary Fund: https://www.imf.org/en/Publications/SPROLLs/covid19-special-notes#mfp*
[10] *Insurance Commission Press Release (June 4, 2020). Based on the survey conducted by the Insurance Commission, total COVID-19 related payouts amounted to PHP 326.95 Million, of which PHP 19.68 Million were ex-gratia payments. The survey was conducted from April 16 to May 8, 2020*

of the insurance sector to avoid capital and liquidity problems that could lead to insolvency of insurance companies and to ensure consumer protection.

Sustainable and resilient external sector

Maintain adequate foreign exchange reserves and market-determined exchange rate

Maintain adequate foreign exchange reserves and a market-determined exchange rate. The country's flexible exchange rate policy should provide macroeconomic stability amid external headwinds. In addition, the BSP implements measures to cushion the impact of sharp peso movements such as maintaining a healthy level of forex (FX) reserves as a buffer, reviewing and adjusting macro-prudential measures, and using liquidity-enhancing and management tools such as the United States (US) dollar repo facility, exporter's dollar and yen rediscounting facilities, and the enhanced Currency Rate Risk Protection Program, among others. Lastly, amid the COVID-19 pandemic, the BSP implemented operational relief measures for FX transactions to help stabilize market conditions and restore confidence. These relief measures, which aim to facilitate the public's access to FX resources of the banking system to finance legitimate transactions, are effective only for the duration of the declaration of any form of "community quarantine" by the Office of the President, or as may be extended by the BSP.

Scale up and diversify products and markets

Strategically participate in bilateral, regional, and global integration, and optimize the utilization of existing free trade agreements (FTAs). Trade tensions between major trading partners US and China exacerbated by mobility restrictions to stem the rise in COVID-19 has dampened trade (*see Chapter 2*). Philippine merchandise exports and imports are expected to decline in 2020 by 16 percent and 18 percent, respectively. The pandemic has also highlighted the significance of diversifying products and markets to reduce vulnerability to supply constraints and shifts in production chains.

To ensure that utilization of existing preferential market access is enhanced and facilitated, the reach of advocacy programs will be expanded through information sessions and greater use of data-driven analytics. This will be complemented by the development of a database for utilization of FTA agreements and an assessment tool to identify gaps and formulate initiatives to enhance utilization. The compliance of partner countries with their FTA commitments will be closely monitored. The government will pursue negotiations to expand or lock-in current preferential concessions, such as the review of the Philippines-Japan Economic Partnership Agreement and ASEAN+1 Free Trade Agreement. In addition, active negotiations will be carried out with existing trading partners, such as in the proposed Regional Comprehensive Partnership Agreement, the Philippines-Korea Free Trade Agreement, the Philippines-EU Free Trade Agreement, and the proposed agreements with the USA.

The existing governance structure on negotiations for international trade agreements will be strengthened. Effective coordination among different interagency bodies involved in international trade agreements, timely monitoring and assessment of gains and challenges, and capacity building activities to develop a continuing pool of trade negotiators, will enhance the country's capacity to forge strategic trade agreements.

The government is presenting the Philippines as a complementary host country for the production of health products, electrical equipment and appliances, metal products, automotive and auto parts, machinery and equipment, optical lenses, and furniture to firms that were either affected by the COVID-19 pandemic in China or the trade tension between China and the USA. The government will also leverage the country's preferential access to the US and EU (through the Generalized System of Preferences [GSP] scheme).

Enhance economic and technical cooperation with trading partners and pursue strategic partnerships with other non-traditional trading partners. Enhancing existing cooperation with major partners while forging new partnerships and engaging non-traditional but strategic partners are vital approaches to strengthen the country's position in these markets and open up new opportunities for our exporters. Fragmentation of global trade and supply linkages and the trade measures implemented by various countries during the pandemic (*see Chapter 2*) also point to the need to expand cooperation with traditional and non-traditional trade partners. Regional stockpiling and operationalizing of a logistics scheme to ensure supply of essential goods will be explored. The country will also engage non-traditional partners in Eastern Europe, Northern and Central Asia, Middle East, Latin America, and Africa through dialogue mechanisms or possible trade agreements.

Intensify promotion of Philippine exports in digital platforms and targeted marketing efforts for international leads. As digital transactions become the new norm, firms must be able to harness the potential of the internet in conducting their businesses. Local exporters will be capacitated to increase their online presence and sensitized to potential changes in market preferences (e.g., shift in demand to comfort wear, electronics, protective equipment). In lieu of physical trade missions and fairs, online business to business (b2b) matching events and realistic virtual trade fairs with improved visual content and detailed product descriptions will be considered as avenues for trade promotion.

DTI and DFA will likewise bolster a feedback mechanism with diplomatic posts, trade, and agricultural attaches to obtain accurate information on market access opportunities, especially in non-traditional but strategic markets, and provide market relevant and timely information in a single website. Platforms such as the Philippine Trade Repository and the TradeLine will be made more user-friendly and refocused on practical content for exporters and potential buyers.

Consistent national branding strategies will be utilized across goods, services, and investment sectors to ensure maximum recall and effectivity. Design-centric and quality-driven products will be promoted in niche markets. For instance, sustainable and eco-friendly indigenous materials (such as bamboo) can be used for market segments with a specific preference for these types of products. Moreover, green certification among MSMEs will be aggressively promoted by the DTI. Green-trepreneurs will also be encouraged to become global by supporting the conduct of the Green Business Forum, among others. Green certification provides an opportunity for MSMEs to gain competitive advantage against large companies as global demand for green products are steadily on the rise.[11] Support for the use of green certification among MSMEs will be provided.

[11] Green products are those that are considered as natural, healthy, eco-friendly, and socially responsible. These also include products that carry eco-labels confirming that the products meet voluntary sustainability standards or international private standards through third-party certification such as organic-certified, fair-trade-certified, culture-based certified (i.e., Halal, Kosher, vegan), environmentally-sustainable (i.e., cruelty-free, dolphin safe, UTZ certified, Forest Stewardship Council-certified, Scientific Certification Systems, Inc.-certified), and have natural content.

Participation in investment promotion events or high-level outbound missions to Korea, Japan, China, Taiwan, and the US may be timed with bilateral FTA negotiations or meetings.

Improve overall climate for export development

Continuous structural reforms will serve as the backbone of ongoing efforts to develop a better business environment and create development opportunities.

Strengthen supply side interventions to improve the quality of Philippine exports. The issuance of a National Quality Infrastructure Law will be pursued to establish the country as a provider of quality products (*see Chapter 9*). To ensure supply chain resilience, better business continuity planning in the export sector will be supported. Logistics reforms such as strategic warehousing as well as cold chain systems will be prioritized. An integrated website tracking real-time information on cargo release, availability of supply, production, and inventory is useful for the national government, LGUs, as well as the private sector to avoid disruptions and uncoordinated supply flow. A registry or database of importers and traders will also be developed for seamless issuance of permits and necessary travel documents to ensure a steady supply and keep track of inventories particularly during emergencies. The present warehouse receipt system will be overhauled to include the creation of an online electronic warehouse receipts registry system.

Upgrading of production processes will be pursued to integrate automation of operations as well as put in place innovative and alternative business processes that will become the new standard on engaging clients, buyers, and suppliers. The digitalization of these operations will enable the Philippines to increase the reach of its products, develop product lines that respond to consumer demand, promote trade through virtual tours, discover better marketing leads, and reallocate other resources to diversify and develop non-traditional exports.

Through the Inclusive Innovation Industrial Strategy (i^3S), a competition-innovation-productivity relationship will be pursued to address a highly-liberalized market environment by growing innovative and globally-competitive manufacturing, agriculture, and services sectors to combat challenges as a result not only of globalization but also of rising regional economic integration.

While the Information Technology and Business Process Management (IT-BPM) continues to lead the services exports sector, it needs to innovate to stay ahead.[12] The government will encourage investments in skills development to tap into higher-value services like animation, data analytics, and cloud computing by strengthening its industry-academe linkages. The country needs to harness its comparative advantage in emerging creative industries (i.e., heirloom and furniture production, weaving, advertising, architecture, culinary arts, film, performing and visual arts, animation, and game development), given these areas *(see Chapter 9)*. The Shared Service Facilities Project of the DTI will improve the competitiveness of MSMEs *(see Chapter 9)*.

[12] IT-BPM covers multiple information technology and business process activities while Business Process Outsourcing (BPO) only covers contact centers (i.e. voice and non-voice) outsourcing services.

Engaging the private sector to invest and set up more agri-based industries will also help in developing agricultural products for exports *(see Chapter 8)*. Programs that link MSMEs to large companies that are part of or operate their own global supply and/or value chains will be sustained *(see Chapter 9).*

The government will prioritize logistics reforms that will rationalize the freight system, establish strategic warehousing, as well as cold chain systems. Enterprises will be encouraged to rethink and adjust production and storage facilities to ensure optimum access with the least disruptions. Development of partnerships with local suppliers to reduce vulnerabilities will be supported. The formation of a Supply Chain and Logistics Committee which will be responsible for identifying and implementing programs that will improve the flow of goods will be considered.

Amendments to the Customs Modernization and Tariff Act (RA 10863) to allow for the expeditious process of tariff modifications in times of crises will be considered to augment local supply. Likewise, amendments to the Special Economic Zone Act of 1995 (RA 7916) may be considered to relax export requirements pertaining to threshold values for domestic sales in cases of emergency as declared by the President and subject to applicable laws, rules or regulations. Further, incorporating amendments related to provisions that will address alternative work arrangements may also be considered. Currently, issuances from the DOLE[13] and Memorandum Circulars[14] issued by the PEZA enable work from home arrangements given the current situation.

Develop a holistic communication management system and increase market intelligence responsive to dynamic consumer preferences. Strengthening the lines of communication between the national government, LGUs, and the private sector through the establishment of a crisis communication management system will enable the immediate dissemination of critical information during emergencies. The development of a compendium of standard operating procedures in times of crisis will be a useful resource for the crisis management system.

Pursue full implementation of enabling laws, support amendments to investment-related laws, and ensure timely implementation of trade facilitative platforms. Implementation of the TradeNet will be accelerated to ensure efficient government services and a robust monitoring and evaluation framework that will facilitate the movement of cargo through the digitalization of processes and payments. The new system shall also curb trade costs and create ease in securing trade documents.

Full implementation of the Ease of Doing Business and Efficient Government Service Delivery Act will be pursued to streamline processes or regulations that impede exports. The Public Service Act will also be pushed, which will allow foreign investments in transport and communication, this in turn can help reduce shipping costs *(see Chapter 9).* Other legislations that will allow foreign competition and improve the competitive environment such as the Foreign Investments Act and the Retail Trade Liberalization shall also be pursued.

Development of mechanisms to track initiatives related to regulations will enable the country to align regulations with other countries and identity necessary capacity building initiatives and norm-setting. The enforcement of science-based sanitary and phytosanitary (SPS) protocols will be strengthened to guard against various diseases that may be brought in through imports. Relevant agencies such as the Bureau of

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[13] *DOLE Labor Advisory 2020-17 issued 16 May 2020, "Guidelines on the Employment Preservation upon the Resumption of Business Operation".*
[14] *PEZA Memorandum Circular 2020-011 dated 5 March 2020, "PEZA Assistance to Ecozone I.T. Enterprises in Responding to COVID-19 (Coronavirus Disease)."*

Quarantine and other regulatory agencies shall be equipped with detection equipment and the hiring of properly trained personnel.

The government will also provide adequate Information and Communications Technology and logistics infrastructure to achieve connectivity and facilitate the movement of traded goods *(see Chapter 9)*. This will allow for the use of electronic Certificates of Origin and electronic SPS Certificates under the ASEAN Single Window to reduce trade costs.

The Philippine Trade Facilitation Committee will also be established to improve coordination of trade facilitation regulations and procedures in line with the country's WTO commitments.[15]

Targeted and focused comprehensive packages of support for specific products and services sector

Target support to specific sectors that have great potential to improve the country's external position. A comprehensive package of support measures related to product development, research, capacity building and marketing approaches will be provided to assist exporters in restarting operations in a calibrated manner while maintaining minimum health standards. To improve the response to product demand shifts in the long-term, capacity building programs through education and training activities for exporters shall be implemented to fully tap technology-enabled business-to-business (B2B) / e-commerce platforms and engage in trade marketing activities despite the pandemic. These would include tapping the technology-enabled platforms in the conduct of webinars, web conferences, and online media advertisements, and the creation of website and visual content on online trade promotion activities. Among the priority sectors will be electronics, food (including urban farming), IT-BPM, tourism, education, healthcare, logistics, construction, personal protective equipment (PPE), solo mobility solutions/transport-related products and services, and creative industries.[16]

Industry roadmaps that will include the development of business continuity plans for promising export-oriented industries will be developed to better prepare firms for the challenges of the New Normal. The Board of Investments will continue to work with the industry, specifically for export-oriented and priority industries, in coming up with recovery plans and preparing/updating of industry roadmaps to prepare and assist firms for changes brought about by the new normal.

The DTI under the Regional Interactive Platform for the Philippine Exporters Plus (RIPPLES Plus) and Philippine Halal Export Development and Promotion Program (PHEDPP) shall likewise continue to coordinate with other trade promotion agencies and the private sector to undertake export development and marketing activities to address the need to expand the supply base of internationally-competitive Philippine export products and services and to provide intensified, purposive, and practical assistance.

[15] *This is a commitment under Article 23.2 of the World Trade Organization Trade Facilitation Agreement.*
[16] *Includes film, animation, game development, graphic arts and design, and advertising*

Table 15.2 Updated Legislative Agenda to Sustain a Sound, Stable, and Supportive Macroeconomic Environment, 2017-2022

LEGISLATIVE AGENDA	RATIONALE
Fiscal Sector	
Passage of the remaining packages of the Comprehensive Tax Reform Program[1/]	Amend the National Internal Revenue Code of 1997 to achieve a simpler, fairer, and more efficient tax system. Among the packages, Package 2 or the **Corporate Recovery and Tax Incentives for Enterprises (CREATE) is a priority.** The measure aims to institute reforms in the corporate tax system (e.g., reduce corporate income tax rate) and the fiscal incentives system, directing them toward strategic growth industries, to attract greater foreign investment and generate more jobs.
Digital Taxation Framework	There is a need to establish a digital taxation framework given the expected shift of the private sector to online transactions amid the new normal. This will ensure a level playing field between traditional industries and the digital economy.
Unified Pension Reform bill	Introduce reforms in the Military and Uniformed Personnel (MUP)'s pension system, which among others include (a) mandatory contribution scheme and (b) increase in the compulsory retirement age, to curb the ballooning pension costs and to ensure fiscal sustainability.
Budget Modernization Bill	Institute sound Public Financial Management (PFM) practices to promote transparency, accountability, and efficiency in the use of public resources.
Amendment to the Omnibus Election Code	Amend certain sections of the Omnibus Election Code (OEC) to allow the exemption of key priority infrastructure projects from the ban during the election period in order to ensure the timely implementation of these projects.
Update the 1976 Government Auditing Code of the Philippines (Presidential Decree 1445)	Revise the outdated provisions of the Government Auditing Code considering the technological advancements, innovations, and other changes in the conduct of government auditing across the globe.
LGU Income Classification Bill	Institute the income classification of provinces, cities, and municipalities, to make it reflective of LGUs' financial capability, particularly their ability to generate locally-sourced revenues.
Key legislative measures that will improve local government finance such LGU Property Insurance Bill *(see Chapter 19)* and Amendment to the Local Government Code of 1991 *(see Chapter 5)*.	
Monetary and Financial Sector	
Enactment of the Financial Consumer Protection Law	Empower financial regulators to formulate and implement rules and regulations, conduct surveillance and examination, monitor supervised entities, and have enforcement powers relative to financial consumer protection.
Amendments to the Bank Secrecy Law	Make financial institutions comply with international standards on transparency and help facilitate investigations on tax evasion, money laundering and other financial crimes.
Amendments to the Securities Regulation Code	Amend outdated provisions of the Code to enable SEC to enforce its rules and regulations relative to its supervision over the corporate sector, the capital market participants, the securities and investment instruments market, and the investing public.
Collective Investment Schemes Bill	Provide a comprehensive regulatory and legal framework for Collective Investment Schemes.
Amendments to the Warehouse Receipts Law	Overhaul the present warehouse receipt system and provide an online registry system where all electronic warehouse receipts can be registered and accessed.

LEGISLATIVE AGENDA	RATIONALE
Amendments to the Agri-Agra Law	Seeks to amend the Agri-Agra Reform Credit Act of 2009 (RA 10000) to strengthen rural development by providing for a holistic approach that takes into account the broader agriculture financing ecosystem and rural community development requirements.
Financial Institutions Strategic Transfer Bill	Aims to maintain the financial health of banks and other financial institutions in order to cushion the adverse economic impact of the COVID-19 pandemic.
Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery Bill	Provide financial assistance to firms that are strategically important to economic recovery, in view of their role in providing employment and supporting the Philippine economy.
External Sector	
Amendment of the Customs Modernization and Tariff Act (RA 10863)	Allow for the expeditious process of tariff modifications in times of crisis in order to augment local supply and ensure that essential medical supplies are stable
Amendments to the Special Economic Zone Act of 1995	Consider relaxing export requirements and incorporate provisions which will address telecommuting and work from home arrangements as a response to the pandemic
Key legislative measures that will promote a sustainable and resilient external sector include measures listed under Chapter 9 such as National Quality Infrastructure Bill, Amendment to the Foreign Investment Act, and Amendment to the Retail Trade Liberalization Act.	

1/ Also includes Package 2+: Mining Fiscal Regime, Package 3: Real Property Valuation, and Package 4: Passive Income and Financial Intermediary Taxation