CHAPTER 15

Ensuring Sound Macroeconomic Policy

The Philippine economy partially recovered in 2021 from the 9.5 percent contraction induced by the COVID-19 pandemic in 2020. The national government (NG) deficit and debt ratios remained manageable despite elevated levels. Meanwhile, headline inflation picked up in 2021 due to the African Swine Fever (ASF), rising global oil prices, and pandemic-induced supply disruptions. In contrast, the financial system remained resilient, and financial inclusion improved amidst the digital divide. The external sector is also expected to recover with the resumption of economic activities and resurgence of demand from trade partners.

To support economic recovery and manage emerging risks, fiscal policy will be made more responsive, resilient and flexible during emergencies. Financial inclusion will also be enhanced by fostering use cases of the national ID program in the financial sector, and strengthening microfinance institutions (MFI). Meanwhile, the country is poised to take full advantage of the global recovery by harnessing existing and new trade agreements to expand market access opportunities. Micro, small, and medium enterprises (MSME) engaged in trade will be supported through streamlined trade processes, trade promotion, and capacity building programs to market Filipino products.

FISCAL SECTOR

ASSESSMENT

The government's fiscal position remained manageable despite the challenges brought about by the COVID-19 pandemic. The budget deficit and debt ratios significantly increased in 2020, amid lower revenues and increased spending on pandemic response and recovery measures to mitigate its impact on the economy. These continued to expand in 2021, as growth in expenditures outpaced the rebound in revenues. Nevertheless, the gradual recovery of the economy allowed revenue collection to exceed the targets in 2021.

RESPONSIVE, STRATEGIC, SUPPORTIVE, AND SUSTAINABLE FISCAL SECTOR

Revenue and tax effort exceeded targets in 2021. While revenue effort declined to 15.5 percent of Gross Domestic Product (GDP) (from 15.9% in 2020), as non-tax revenues normalized, it settled above the 2021 target. Meanwhile, tax effort marginally increased to 14.1 percent of GDP (from 14.0%) and exceeded the 2021 target.

Expenditures increased in 2021, due to the recovery in infrastructure spending and continued implementation of COVID-19 related programs. Primary expenditure grew to 21.9 percent of GDP (from 21.4% in 2020) and settled higher than the target. The expansion in primary expenditure was mainly buoyed by the combined impact of the rebound in infrastructure, higher personnel services expenditure and transfers to local government units (LGUs), equity releases for lending assistance programs under the *Bayanihan* II law, and lower-than-programmed interest payments. Expenditures on economic and social services also exceeded the 2020 targets and are projected to hover above the 2021 targets. Likewise, the share of health expenditures in the 2021 budget increased and exceeded the target.

NG deficit and debt remained manageable despite elevated levels. The budget deficit widened to 8.6 percent in 2021 (from 7.6% in 2020), slightly above the 8.5 percent target for 2021. Meanwhile, debt-to-GDP ratio settled within the target range for 2021, despite increasing year-on-year to 60.4 percent (from 54.6%). The government's credit rating was also sustained, with only one credit rating agency reducing its outlook to negative.

Fiscal performance of LGUs was broadly stable in 2021. As a share of total current operating income, locally-sourced LGU income marginally declined to 29.4 percent in 2021 (from 30.3% in 2020), but remained above its 2021 target. In levels, it slightly improved year-on-year and exceeded its 2021 target due to the increase in real property tax collections. In contrast, the Local Development Fund (LDF) remains underutilized despite improvements in 2021 (70.8% from 69.0% in 2020).

IN FOCUS: JUAN DELA CRUZ, HOPEFUL AGRI-ENTREPRENEUR

Juan dela Cruz is a 20-year-old middle child of a third-generation tenant farmer. His frustrations—limited delivery of health, education, and transport services and the lack of economic opportunities—represent those of the least developed provinces. Nevertheless, the implementation of the Mandanas Ruling in 2022 gives hope to people like Juan.

The COVID-19 pandemic worsened the economic and social problems faced by Juan and his family. Juan had to drop out of school as the shift to blended learning made access to education more difficult. His father's health also worsened due to a shortage of medicines and the overcapacity of healthcare facilities. Moreover, Juan's eldest brother temporarily moved back to the province as he lost his job in Metro Manila. Because of these circumstances, Juan has decided to help his mother, Manang Gina, by working as a tenant farmer.

Nevertheless, Juan still dreams of returning to school to earn a college degree related to agribusiness. Unlike his older siblings, he plans to stay in the province and be a successful agri-entrepreneur. Ultimately, he dreams of having his father treated in a hospital and lifting his family out of poverty.

STRATEGIC FRAMEWORK

The frustrations of Juan represent those of the least developed provinces who are likely to be affected by the implementation of the Mandanas Ruling in 2022. To address Juan's frustrations and help him achieve his aspirations, the national government will pursue reforms that will enhance the capacity of the LGUs to implement devolved functions, especially in agriculture, education, and health sectors.

Furthermore, to minimize the impact of uncertainties arising from the COVID-19 pandemic on Filipinos like Juan, fiscal policy will be made more responsive, resilient, and flexible during emergencies through enabling budget and policies, and improved private sector participation (see box).

Figure 15.1 Strategic Framework to Ensure a Responsive, Strategic, Supportive, and Sustainable Fiscal Sector

SOUND, STABLE, AND SUPPORTIVE MACROECONOMIC ENVIRONMENT SUSTAINED

Responsive, strategic, supportive, and sustainable fiscal sector

- **Strategically reprioritize expenditures** and implement expenditure management reforms
- Implement strategic revenue policy and administrative measures
- Explore optimal financing schemes including multilateral and market financing
- Recalibrate medium-term debt and contingent liability management strategy

Note: Text in bold are revised/new strategies to address the challenges identified in the sector.

STRATEGIES

RESPONSIVE, STRATEGIC, SUPPORTIVE, AND SUSTAINABLE FISCAL SECTOR

Strategically reprioritize expenditures. To manage fiscal risks and economic shocks arising from lingering disruptions due to the pandemic, the government will continue to reprioritize its expenditures over the near-term. Priority will be given to health-related expenditures, disaster- risk management, social security, digital economy/government, local government support, and growth-inducing expenditures such as crucial and shovel-ready infrastructure projects, among others. Moving forward, the government will ensure that the budget remains responsive to the emerging needs and immediate concerns of the country.

Institute mechanisms that will increase resilience and flexibility of the fiscal sector against future pandemics, disasters, and shocks. Amid increasing uncertainties over the next disasters and shocks, the government will explore the establishment of an emergency standby fund, mechanisms that will allow the quick reallocation of funds, and the lifting of the 30 percent cap on Quick Response Funds during national public health emergencies. The government will also strengthen the existing National Disaster Risk Reduction and Management Fund mechanism. Programs to promote increased household savings in the medium-term *(see Monetary and Financial Sectors)* and improve social safety nets [*see Chapter 11*] should also be pursued.

Pursue institutional reforms to ensure timely execution of projects. To complement administrative improvements in budget execution, institutional reforms will be introduced to address persistent bottlenecks. The passage of the Budget Modernization Bill (BMB)[1] will institutionalize the Cash Budgeting System (CBS) and other key public financial management (PFM) reforms, while taking into account the lessons from the pandemic, including the need for flexibility.

Intensify and fast-track the finalization and implementation of Devolution Transition Plans (DTP), including information campaign and capacity development of LGUs. In line with Executive Order No. 138, s. 2021, the government should fast-track and closely monitor the finalization and implementation of the DTPs and the capacity development of LGUs, especially in the agriculture, education and health sectors. Strategic communications and strong engagement of stakeholders will also be crucial in increasing LGU accountability. The effective implementation of the DTPs will help ease pressure on the NG's fiscal space due to the implementation of the Supreme Court Ruling on the *Mandanas* Case and ensure standards for the delivery of devolved services. [*See Chapter 5*]

Provide additional resources for capacity development and ensure effective implementation of the Growth Equity Fund (GEF). Starting 2022, the GEF will be provided to financially and technically challenged LGUs to level the playing field in the implementation of devolved services. Implementation during the initial year will be evaluated and the guidelines and budget will be adjusted accordingly. [*See Chapter 5*]

[1] House Bill Nos. 2807, 8308, 9214, and 9239 are pending for deliberations in the House Committee on Appropriations while no bill has been filed in the Senate.

Fast-track the implementation of priority tax reform measures. This should include the establishment and institutionalization of a comprehensive digital taxation framework,[2] which will help the government manage the challenges and reap the benefits of the digital economy. The full implementation of tax administration measures, particularly the fuel marking, Electronic Receipt and Invoice System, and the digitalization of tax-collecting agencies will also enable the government to regain needed revenues.

Boost local resource mobilization. With the anticipated decline in National Tax Allotment (NTA) of LGUs in 2023 considering the lower NG revenue collections in 2020, close monitoring and collaboration with stakeholders will be needed to ensure the implementation of local resource mobilization measures.[3] The passage of the Real Property Valuation Reform bill[4] can also significantly improve real property tax collections of LGUs. In addition, continued capacity-building activities will enable LGUs to tap other sources of financing, such as official development grants.

Diversify funding sources. The NG will explore various financing schemes and sustain a financing mix in favor of domestic sources, especially in the light of an expected increase in global interest rates. The development of the government's sustainable finance framework, as well as efforts to further enhance its capacity to comply with international Green, Social and Sustainable (GSS) finance principles, will be important to diversify its funding sources. Overall, further developing domestic capital markets *(see Monetary and Financial Sectors)* and building safeguards against external risks *(see External Sector)* will complement the strategies mentioned above.

Encourage greater private sector involvement while recalibrating contingent liability management. Private sector participation through various public-private partnership (PPP) modalities will be tapped to ease pressure on the national government's fiscal position and supplement the limited capacities in project implementation at the LGU level. At the same time, the design of PPP contracts, including in terms of risk allocation, will have to be revisited to reduce risks of contingent liabilities unnecessarily materializing during public health emergencies.

Balance fiscal consolidation and the need to support the recovery. Even as the government takes proactive steps to rebuild fiscal space and manage public debt, the pace of consolidation must not endanger the economic recovery. To complement NG's fiscal and monetary interventions, the government will pursue a 10-point agenda for economic recovery covering the following areas: 1) metrics; 2) vaccination; 3) healthcare capacity; 4) economy and mobility; 5) schooling; 6) domestic travel; 7) international travel; 8) digital transformation; 9) pandemic flexibility bill; and 10) medium-term preparation for pandemic resilience.

[2] House Bill No. 7425, which proposes to impose Value-Added Tax on digital transactions, was approved on third and final reading in the House of Representatives on 21 September 2021 and is currently being deliberated at the Senate Committee on Ways and Means.

[3] Department of Interior and Local Government (DILG). Guidelines on the Preparation of Devolution Transition Plans of Local Government Units in Support of Full Devolution under Executive Order No. 138, Dated 01 June 2021. August 11, 2021. Retrieved from: https://dilg.gov.ph/PDF_File/issuances/joint_circulars/dilg-joincircular-2021818_8aa022e204.pdf

[4] House Bill No. 4664, which proposes instituting reforms in the valuation and assessment of real property, was approved on third and final reading in the House of Representatives on 25 November 2019. Meanwhile, alternate bills have been filed and are pending for deliberations in the Senate Committee on Ways and Means.

MONETARY AND FINANCIAL SECTOR

ASSESSMENT

RESILIENT AND INCLUSIVE MONETARY AND FINANCIAL SECTOR ACHIEVED

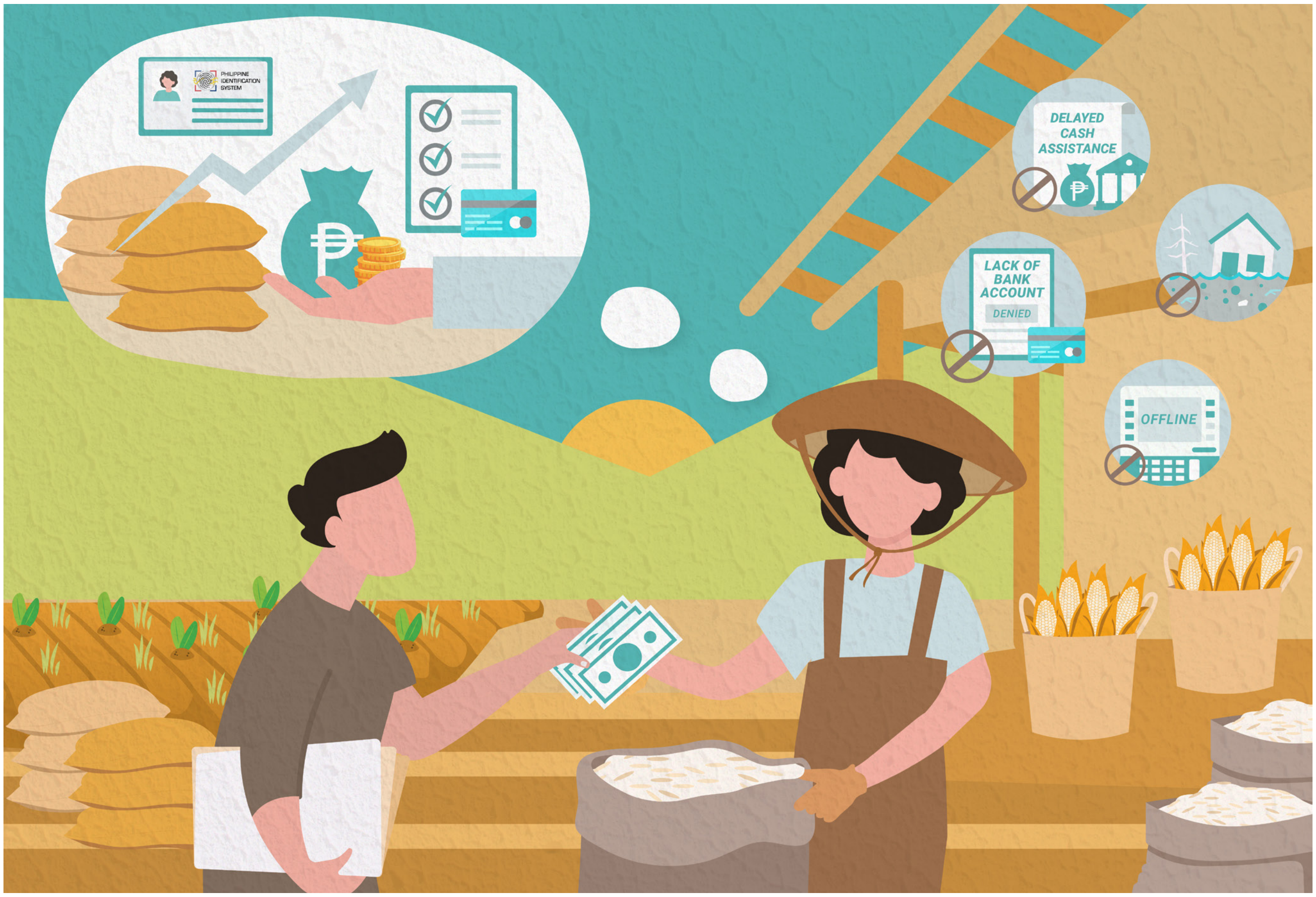
The government adopted various measures to curb the elevated inflation in 2021. The government's inflation target was nearly exceeded amid the impact of ASF on meat prices, rising global oil prices, and pandemic-induced supply disruptions. In response, the government eased meat import restrictions and temporarily reduced tariffs. Cash grants were also provided to public utility vehicle (PUV) drivers. The shift from community quarantines to the new COVID-19 alert level system has also allowed the economy to gradually reopen.

The financial sector remained broadly stable, while inclusion improved. The banking and insurance sectors remained strong, although asset growth eased, with monetary and financial sector policies remaining supportive. The bond market was boosted by increased government borrowings, while the equity market rebounded following a dip in market sentiment in 2020. Moreover, financial inclusion indicators showed positive gains. The microfinance sector seems to be gradually recovering, while accessibility and use of digital payments expanded strongly (i.e., Instapay transactions increased ten-fold over two years[5]). Moreover, as of December 31, 2021, more than 7 million Filipinos have opened transaction accounts via LandBank kiosks co-located in Philippine Identification System (PhilSys) registration centers.

Digital technology helps in fostering broad-based financial inclusion, but cybersecurity risks threaten consumer protection. To support the expansion of the adoption and use of digital financial services throughout the country, the Bangko Sentral ng Pilipinas (BSP) issued the digital banking framework in December 2020 to encourage responsible innovation and promote a level playing field for all digital financial ecosystem participants. However, access to financial products and services is limited, especially for the low-income and less educated, while provision of government financial support through cash remains inefficient. Further, low levels of financial literacy as well as increased cases of frauds and scams could undermine public confidence and trust in digital financial services.

[5] As of end-November 2021, InstaPay transactions expanded 11 times in terms of volume and nine times in terms of value relative to 2019.

IN FOCUS: MANANG GINA DELA CRUZ, A TENANT FARMER NEEDING ACCESS TO FINANCIAL ASSISTANCE



Manang Gina dela Cruz,[6] *Juan's mother is a 50-year-old tenant farmer who hopes to increase their farm earnings and eventually lift their family from poverty.*

However, a massive flood damaged their farm last year. She has been requesting credit from lending institutions to rebuild the farm, but she was repeatedly denied due to lack of bank account and collateral.

Manang Gina used to sell her meager harvests to a rural cooperative which sells to a small Manila-based exporter of manufactured agricultural products. Before the pandemic, her eldest son worked in an export firm and sent money monthly through a single remittance center in the town center which is often offline and charges high fees. With the pandemic, the export firm laid off workers, including Manang Gina's son, and reduced its purchase from the rural cooperative. Manang Gina had no choice but to sell her harvests to middlemen at steep discounts. Meanwhile, financial support from the government took several weeks because of logistical challenges in physically distributing cash assistance.

[6] Not a real person but a persona adopted by NEDA for the purpose of illustrating the Filipinos' aspirations and challenges faced with respect to the topic

STRATEGIC FRAMEWORK

New sub-strategies were included in the sub-sector outcome under the monetary and finance sector, especially to manage the threats and uncertainties arising from the COVID-19 pandemic and the digital divide, taking into account the aspirations and frustration of disadvantaged stakeholders like Manang Gina *(see box)*.

Figure 15.2 Strategic Framework to Achieve a Resilient and Inclusive Monetary and Financial Sector

SOUND, STABLE, AND SUPPORTIVE MACROECONOMIC ENVIRONMENT SUSTAINED

Resilient and inclusive monetary and financial sector

- Develop a more inclusive digital finance ecosystem
- Encourage efficiency and innovation in microfinance and microinsurance
- **Promote** Islamic banking and finance **through enabling regulatory environment**
- **Maintain** financial stability through **enhancements** of macroprudential measures
- **Sustain the safety** and soundness of financial institutions as well as **promote** consumer protection through microprudential measures and policy reforms
- Maintain a flexible inflation targeting framework for monetary policy formulation
- Foster capital **and financial** market development

Note: Text in bold are revised/new strategies to address the challenges identified in the sector.

of the chapter.

STRATEGIES

RESILIENT AND INCLUSIVE MONETARY AND FINANCIAL SECTOR ACHIEVED

Develop a more inclusive digital finance ecosystem

Expand the availability of innovative and responsive financial products and access to financial services. The three-year Digital Payments Transformation Roadmap (DPTR)—which aims to create an efficient, inclusive, safe and secure digital payments ecosystem—intends to convert at least 50 percent of retail transactions into digital form, and have 70 percent of Filipino adults own a transaction account by 2023. In addition, the inclusion of "digital banks" as a distinct classification of banks has been approved.[7] The Open Finance Framework has also been established to facilitate digital transformation and financial inclusion by promoting consent-driven data portability, interoperability, and collaborative partnership between financial institutions and financial technology (fintech) players.[8] The proposed Agent Registry of BSP will further expand and effectively regulate the agent network. The government will continue to promote the use of QR Ph-enabled digital payments, including in public markets and transportation. The government will also issue supporting policies and guidelines to promote the adoption of movable collateral by banks in line with the Personal Property Security Act (RA 11057). The Securities and Exchange Commission's (SEC) PhiliFintech Innovation Office, which was launched in July 2021, will further foster innovation and effective regulation of fintech in pursuit of financial inclusion and investor protection. Moreover, the National Strategy for Financial Inclusion (NSFI) 2022-2028, launched on January 28, 2022, will serve as a guiding framework to accelerate financial inclusion in the Philippines.

Foster use cases of the national ID in the financial sector. Apart from the use of Know-Your-Customer (KYC) compliance, the government will explore additional use cases of the national ID in the financial sector, such as the enhancement of the Personal Property Security Registry and establishment of credit history.

Strengthen consumer protection to manage the risks of adopting digital financial technology. The government should develop a consumer protection collaboration framework to avoid overlaps or gaps with respect to e-commerce and digital finance transactions. This should involve all relevant regulatory and law enforcement agencies.[9] The recently passed Financial Products and Services Consumer Protection (FCP) Act will institutionalize consumer protection amid the growing complexity of financial products and services.[10] To further address cybersecurity risks, the BSP's IT risk management standards and Cybersecurity RoadMap for financial institutions will be implemented.

Fast track affordable and convenient digital payments. The DPTR aims to convert half of the total volume of retail payments into digital form by offering customers faster, more convenient and more affordable payment options. The government should continue to champion and support the development and use of

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7 BSP Circular No. 1105 dated 2 December 2020.
8 BSP Circular No. 1122 dated 17 June 2021.
9 Regulatory and law enforcement agencies may include the DTI, BSP, National Bureau of Investigation, Philippine National Police, National Telecommunications Commission, Department of Information and Communications Technology and National Privacy Commission.
10 Passed by the Senate of the Philippines as Senate Bill No. 2488 on 02 February 2022 and adopted by the House of Representatives as an amendment to House Bill No. 6768 on 02 February 2022.

digital payments streams that are responsive to the needs of consumers and aim to expand participation in QR Ph, particularly of major payment providers, in order to facilitate interoperability of digital financial and payment transactions across various financial service providers.

Expand the financial literacy program in partnership with other stakeholders, covering digital financial services. Following the issuance of the Department of Education's (DEPED) Financial Education Policy that mandates the intensified integration of financial literacy lessons in the K to 12 curriculum, competency and capability building activities for teaching and non-teaching personnel shall be carried out. The BSP will continue to work with the Commission on Higher Education (CHED) to embed personal finance classes in tertiary education and continue customer awareness campaigns through various delivery channels such as social media platforms. The SEC will further expand its investor education campaign on capital markets in terms of partners and beneficiaries.

Encourage efficiency and innovation in microfinance and microinsurance

Address liquidity issues of microfinance institutions (MFI) and support their digitalization. The government is exploring further interventions in terms of loan guarantees/surety for MFIs. The government should expand the capacity building of MFIs to support their transition to digital platforms as well as their efforts in capitalizing on financial technology.

Strengthen monitoring of insurance sector and expand information campaigns on available products and services. Monitoring the insurance sector to ensure stability, resiliency, and consumer protection should be enhanced, including the conduct of stress testing.

Promote Islamic banking and finance through an enabling regulatory environment. The guidelines on Shari'ah Governance Framework and the establishment of Islamic Banks (IBs) and Islamic Banking Units (IBUs), as well as guidelines on the management of liquidity risks by IBs and IBUs[11] will be enforced to create an enabling environment that will allow Islamic banks to operate alongside the conventional banks under the same regulatory approach, taking into consideration the unique features of Islamic financial activities/ transactions. The Shari'ah Supervisory Board in Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) will be created and operationalized in line with the Bangsamoro Organic Law.

Maintain financial stability through enhancements of macroprudential measures. Monetary authorities will regularly conduct macroprudential stress testing for banks. The conduct of stress tests is also being refined in terms of quality and extent of granularity of data, including the integration of macro-related scenarios. A Systemic Risk Crisis Management (SRCM) Framework is also being formulated. The government will ensure effective communication of systemic risks and government policies to guide stakeholders in making well-informed financial decisions. Moving forward, authorities will revisit the design of forbearance measures to mitigate the potential buildup of financial stability risks.

[11] BSP Circular No. 1116 dated 25 May 2021.

Sustain the safety and soundness of financial institutions as well as promote consumer protection through microprudential measures and policy reforms. The BSP has made significant progress in complying with the Basel Core Principles of Effective Banking Supervision, particularly in improving risk management and corporate governance of banks. Reforms to promote the safety and soundness of the financial system, including strengthening corporate and risk governance, promoting responsible innovation, and upholding of financial integrity will continue to be pursued.

Maintain a flexible inflation targeting framework for monetary policy formulation. Close coordination of monetary and fiscal policies will continue to ensure that the economy's recovery from the pandemic is sustained.

Foster capital and financial market development

Foster capital market development to secure a well-functioning financial market. Operational and capitalization requirements will be reviewed to improve capital market participation. Efforts to streamline the registration processes for small- and medium-sized enterprises (SME) will be pursued.

Foster growth of green and sustainable finance market. The BSP has put in place enabling regulations to support sustainable finance through the issuance of Sustainable Finance Framework and Environmental and Social Risk Management Framework.[12] Subsequent to this, the BSP will issue guidelines covering the investment management activities of banks, conduct of climate stress testing, enhancement to prudential reports, and potential regulatory incentives for banks.

The financial sector regulators under the auspices of the Financial Sector Forum will also harmonize existing guidelines on governance, risk management and disclosure requirements to operationalize the policy pillar of the Philippine Sustainable Finance Roadmap and develop specific guidelines to implement the Sustainable Finance Guiding Principles (i.e., principles-based taxonomy). The latter will facilitate identification of green or sustainable economic activities or projects and accelerate mobilization of funds to such activities or projects.

EXTERNAL SECTOR

ASSESSMENT

The country's external sector has shown signs of recovery with the resurgence of trade flows across the globe. Merchandise exports in 2021 reached USD 54.2 billion, 12.4 percent higher than the same period in 2020 and 1.3 percent higher than in 2019. Exporters were able to adapt to changes in demand and shifted or regain markets as well as explored digital platforms to expand their presence. Demand for goods recovered particularly for the country's top export products. Service exports were slower to recover, but the pace is expected to pick up as more sectors of the economy reopen and mobility restrictions begin to loosen.

12 BSP Circular No. 1085 dated 29 April 2020 and BSP Circular No. 1128 issued in October 2021.

To further take advantage of the global recovery, the government implemented measures to support Filipino exporters, especially MSMEs, to ensure continued production and unhampered movement of trade.[13] These were complemented with trade promotion, including activities held virtually, and capacity building activities, training, and information sessions.

The country also continued to work towards broadening and expanding market access and enhancing relations with major trade partners. The signing of the Regional Comprehensive Economic Partnership (RCEP) Agreement in November 2020 and the conclusion of negotiations for the Philippines – Republic of Korea FTA in October 2021 coupled with export promotion activities will be crucial in improving export performance and investments that support the export sector.

The pandemic is expected to continue to be the most significant challenge for the external sector. Services such as travel are highly dependent on the state of the pandemic and restrictions, while orders for goods are also dependent on the sustained recovery of trading partners. The lingering effects of the pandemic can also be exacerbated by trade restrictive policies of trading partners.

SUSTAINABLE AND RESILIENT EXTERNAL SECTOR

Exports of goods exceeded the target in 2021. Merchandise exports in 2021 increased by 12.4 percent to USD 54.2 billion, exceeding the target for the year.[14] The quick resurgence of global demand has helped the recovery of goods exports despite pandemic-driven supply chain issues. Following the decline in 2020, exports recovered for most of the country's major exports. Based on data from the Philipine Statistics Authority, outward shipments of semiconductors (4.57%), electronic data processing (12.46%), copper metal (66.10%), chemical products (28.49%), and coconut oil (54.88%) have exceeded pre-pandemic levels. Exports to the Philippines' two largest markets, the United States (US) and China, grew by 2.5 percent and 17.7 percent, respectively, from pre-pandemic levels.

Services exports fell behind target due to slower recovery. Services exports increased by 6.7 percent to USD 33.6 billion in 2021. This was supported by strong growth in information services (727%); other personal, cultural, and recreational services (207.7%); financial intermediation services (137.5%); and charges for the use of intellectual property (118.3%). However, the 2021 target was not reached. In part, the Philippines benefitted from improved economic conditions of major trading partners like the US, China, and Japan with more relaxed restrictions on travel and export-oriented industries. Moving forward, services exports will post modest growth with the gradual reopening of the economy. Receipts from the Information Technology-Business Process Management (IT-BPM) segment will pick up to compensate for the likely subdued revenues from travel.

The current account reversed to a deficit of 1.8 percent of GDP in 2021 from a surplus of 3.2 percent in 2020. The merchandise trade deficit widened due to the sustained growth in imports, mostly capital and intermediate goods, following the gradual resumption of domestic economic activities. For 2022, the current account deficit is expected to settle at -3.8 percent of GDP.[15]

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13 These include policy issuances to ensure export-related manufactures and other products for exports remain in operation, facilitating the provision of access IDs for workers, coordination with various LGUs and government instrumentalities to ensure unhampered transport of goods, and access to credit for exporters.

14 Source: BOP data, BSP

15 Based on the Monetary Board's Balance of Payments outlook as of 18 March 2022.

IN FOCUS: EDGAR GUERRERO, A FUTURE EXPORTER OF LOCALLY MADE PRODUCTS

Mr. Edgar Guerrero[16] is a father of three and an owner of a small manufacturing and exporting plant. There exists a positive relationship between the success of his business and that of cooperative farmers like Manang Gina who supplies him with raw materials.

He dreams of cementing the success of his business through its expansion to foreign markets and becoming a champion of Filipino products abroad. To reach this goal, he plans to streamline and reduce the costs of his business with green and modern technologies that can enhance competitiveness, productivity, and overall standards. He also acknowledges that in order for his business to be sustainable, providing a decent job to his employees should be among his priorities.

He is currently facing multiple threats to his business. Among these are rising costs from electricity, shipping, and taxes, and the pandemic situation has made him lay off some of his employees. Diversifying to other markets is difficult since he lacks information about trade agreements he can use or product standards and regulations he needs to comply with. Digitalization is becoming more important and he needs further training to keep up with the trends.

[16] Not a real person but a persona adopted by NEDA for the purpose of illustrating the Filipinos' aspirations and challenges faced with respect to the topic of the chapter.

STRATEGIC FRAMEWORK

Mr. Guerrero's passion and aspiration to bring Filipino products to the international market sets the bar and drives focus on how government will fuel this ambition by providing the environment that will nurture and support this enterprise. Laying the groundwork for his entry into the global market with engagements that will maximize competitiveness of his products is a key ingredient to helping him and entrepreneurs he represents gain a foothold in new and exciting markets. Equally necessary are the continuation of reform efforts in trade facilitation and logistics that will help reduce cost of production and create a favorable climate for the entry of investments as well as the provision of support measures that will strengthen his capacity and ability to innovate and create high value products that will cater and adopt to market demand. The government will also be at the forefront of providing infrastructure and digital solutions that will help enterprises like Mr. Guerrero harness and take advantage of the shift in platforms brought on by the world in a post pandemic stage *(see box).*

Figure 15.3 Strategic Framework to Ensure a Sustainable and Resilient External Sector

SOUND, STABLE, AND SUPPORTIVE MACROECONOMIC ENVIRONMENT SUSTAINED

Sustainable and resilient external sector

- Maintain adequate foreign exchange reserves and market-determined exchange rate
- Scale up and diversify products and markets
- Improve overall climate for export development
- Accelerate provision of targeted, focused and comprehensive packages of support for specific products and services sectors

STRATEGIES

SUSTAINABLE AND RESILIENT EXTERNAL SECTOR

Maintain adequate foreign exchange reserves and market-determined exchange rate. The country's flexible exchange rate policy will continue to support macroeconomic stability despite external headwinds. To cushion the negative impact of sharp peso movements, the BSP will ensure a healthy level of foreign exchange or forex reserves as a buffer, implement appropriate macro-prudential measures, and adopt liquidity enhancing and management tools as necessary. Further, the BSP will continue to provide operational relief measures to facilitate the public's access to forex resources of the banking system amid the pandemic.

Scale up and diversify products and markets.

Capitalize benefits from existing trade arrangements and lay the groundwork to maximize prospective opportunities from new free trade agreements (FTA). Utilization of FTAs can be enhanced through intensified information and advocacy campaigns, enhanced assistance in meeting regulatory requirements, and the development of a freely accessible and user-friendly platform containing relevant trade information. Likewise, general reviews of existing FTAs will be prioritized to provide opportunities to secure better commitments from trading partners. The government will also work towards retaining access under key Generalized System of Preference (GSP)[17] regimes as well as initiate discussions to institutionalize these trade preferences through FTAs. In light of the ongoing domestic ratification of the RCEP Agreement and the conclusion of negotiations under the Philippines – Republic of Korea FTA, measures will be undertaken to prepare stakeholders and increase export competitiveness in these markets.

Strengthen online presence of Philippine exports and intensify targeted marketing efforts for international leads. The government must provide capacity building and technical assistance to strengthen exporters' online presence, reach more markets, and be more attuned to shifts in consumer preferences. The mounting of virtual trade fairs, partnerships with the private sector, mentoring sessions, and marketing efforts consistent with national branding strategies will likewise be pursued. The government must encourage exporters to capitalize on rising global demand and consumer trends toward more sustainable and ethical consumption of products through the promotion of green certification[18] for industries.

Enhance economic and technical cooperation with trading partners. The government will intensify economic and technical cooperation initiatives at multiple levels,[19] particularly those that improve competitiveness and pandemic preparedness, foster innovation, and encourage investments. Cooperation activities will be focused on joint efforts on value creation or addition (e.g., upskilling or retooling of talent pool, other technology or knowledge transfer activities), improving product quality, obtaining certifications, supply chain innovations, and addressing trade-restrictive measures.

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[17] These include Generalized System of Preferences (United States), the Special incentive arrangement for Sustainable Development and Good Governance or GSP+ (European Union), and the UK Generalised Scheme of Preferences, among others.
[18] Green certifications include labels provided by third-party certification organizations that attest to a product being healthy, eco-friendly, sustainable, or ethical.
[19] Multilateral (e.g., APEC, UN, World Bank), regional (e.g., ASEAN), and bilateral (e.g., Joint Economic Commissions, JICA) levels.

Pursue strategic partnerships with other non-traditional trading partners. Assistance will be given to exporters looking to explore opportunities in less traditional markets in Europe, South and Central Asia, Africa, and the Americas. Focused market research, targeted trade promotion activities, and enhanced assistance with meeting trade and product requirements must be provided to Filipino businesses. As a starting point, the Philippines-European Free Trade Association (EFTA) FTA can serve as a gateway to non-traditional markets in Europe. The Philippines may further strengthen its relationship with regional partners where there is potential to further increase market presence such as India.

Improve overall climate for export development.

Strengthen supply side interventions to improve the quality of Philippine exports. The government will prioritize logistics reforms that will rationalize the freight system and 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. Mechanisms to track and align regulations with other countries and identify necessary capacity building initiatives and norm-setting will be developed. The enforcement of science-based sanitary and phytosanitary (SPS) measures will be strengthened to guard against various diseases that may be brought in through imports. Relevant regulatory agencies will be provided with appropriate equipment and properly trained personnel.

Implement and review laws and regulations to promote a competitive business landscape conducive for trade. The onboarding of all trade-related government agencies onto the TradeNet platform will be prioritized to reduce trade costs for domestic enterprises. The strict implementation and continued streamlining of processes and regulations under the Ease of Doing Business (EODB) Law[20] will also cut processing times for trade documents. The creation of the Philippine Trade Facilitation Committee (PTFC)[21] will further boost initiatives in expediting the movement, release, and clearance of trade in goods. This will likewise strengthen implementation of existing trade facilitation measures available under existing preferential trade arrangements, such as the EU Registered Exporter System (REX) and the self-declaration scheme under the PH-EFTA FTA.

Recent amendments to the Foreign Investments Act (FIA) will encourage competition and facilitate investments. Similarly, recent amendments to the Public Service Act (PSA) will allow 100 percent foreign investment in areas such as transport and telecommunications to help address logistical challenges and facilitate digitalization efforts, respectively. Amendments to the Customs Modernization and Tariff Act (CMTA) will also be pursued, including regulations that hinder free flow of trade. These will facilitate timely processing of tariff modifications particularly during national emergencies.

Accelerate provision of targeted, focused and comprehensive packages of support for specific products and services sectors.

[20] Republic Act 11032 or the Ease of Doing Business and Efficient Government Service Delivery Act of 2018.

[21] The PTFC, which is part of the country's commitment to the World Trade Organization (WTO) Trade Facilitation Agreement, was created through Executive Order No. 136, s. 2021.

Target support to specific sectors that have great potential to improve the country's external position. The disruption brought by the pandemic highlights the need for business continuity plans for export-oriented and priority industries, as well as support industries. The government must enable the reconfiguration of the participation of key industries in global value chains through capacity-building programs, such as education and training activities for exporters, investment promotion of new and existing sectors, policy formulation, and other business-enabling initiatives (including commercial intelligence). The effective implementation of key post-pandemic economic strategies such as RECHARGE PH, REBUILD PH, and the National Employment Recovery Strategy[22] will also be prioritized to prepare key stakeholders and upgrade their technology and skills for further expansion. The government will prioritize attracting investments that build on existing competencies and address supply chain gaps to strengthen and upgrade existing sectors, and enable the development of critical sectors (i.e., health and life sciences).

Further details on the plans and strategies to provide the necessary targeted support to exporters will likewise be detailed in the successor Philippine Export Development Plan (PEDP) 2022-2027. The PEDP will seek to address the disruptions in global value chains brought about by the pandemic by recommending strategic interventions for developing export sectors, especially agricultural exports. These proposed activities will cover industry development, innovation, and marketing and promotion including the matching of key products with easy-access and high-demand markets.

Upgrade internet infrastructure and institutionalize skills development for high-value services exports. Internet infrastructure needs to be continuously upgraded to support the growth of services exports, particularly for digitally enabled and digitally deliverable services. In addition, reforms to further establish and develop digital careers through upskilling and providing innovative training for workers will also be prioritized in order to facilitate the transition to higher value services and cope with the advancements in digital technologies and increasing competition. [*See Chapter 9B*]

[22] RECHARGE refers to the broad strategies for reopening the economy while mitigating the spread of the virus. REBUILD refers to the strategies related to revitalizing consumption and helping businesses capture the demand created. The NERS refers to the strategies related to the recovery of the labor market.

RESULTS MATRIX

Table 15.1 Results Matrix

INDICATOR	BASELINE (YEAR)	TARGETS			ACTUAL		
		2020	2021	2022	2019	2020	2021
Sector Outcome: Sound, stable and supportive macroeconomic environment sustained							
Sub-sector Outcome 1.1: Responsive, strategic, supportive, and sustainable fiscal sector							
Government revenue-to-Gross Domestic Product GDP ratio improved (%)[3/]	15.2 (2016)	17.0	13.2	13.3	16.1	15.9	15.5
Tax revenue to GDP ratio improved (%)[3/]	13.7 (2016)	16.2	12.3	12.5	14.5	14.0	14.1
Primary expenditure to GDP ratio maintained above baseline (%)[3/]	15.5 (2016)	18.1	19.1	17.9	17.6	21.4	21.9
Share of interest payments in total disbursements managed (%)	11.9 (2016)	9.7	11.0 - 14.0	12.0 - 15.0	9.5	9.0	9.2
Ratio of discretionary expenditure to total budget maintained above 30.0 percent (%)	42.7 (2016)	48.6 (obligation-based)	40.1 (cash-based)	32.4 (cash-based)	40.7 (cash-based)	41.2 (cash-based)	40.5 (cash-based)
Economic service sector expenditure to GDP maintained above 5.0 percent (%)[3/]	5.7 (2016)	5.7	6.5	5.7	5.2	6.3	Not yet available
Social service sector expenditure to GDP maintained above 7.0 percent (%)[3/]	6.7 (2016)	7.3	8.1	7.9	6.9	9.8	Not yet available
Ratio of Health Sector expenditure to total budget increased (%)	4.4 (2016)	4.5	4.6	4.1	4.9 (GAA)	4.5 (GAA)	4.9 (GAA)
Utilization of current year's budget increasing	92.6 (2018)	Increasing	Increasing	Increasing	93.0	94.8	67.7 (Q1-Q3)[4/]
Manageable National Government (NG) fiscal deficit to GDP ratio maintained (%)[3/]	2.4 (2016)	3.0	8.5	7.2	3.4	7.6	8.6
Manageable outstanding NG debt stock to GDP ratio maintained (%)[3/]	42.1 (2016)	36.8	58.0-61.0	60.0-63.0	39.6	54.6	60.4
Manageable consolidated public sector balance as a share of GDP maintained (%)[3/]	-0.1 (2016)	-1.0	-5.8	n.a.	-0.9	-5.5	-4.2 (as of end-Sept)
Investment grade credit rating sustained/improved	Stable/ Positive (2016)	At least Stable/ Positive	Sustained investment grade credit rating	Sustained investment grade credit rating	Stable/ One rating upgrade	Stable	Sustained with Negative to Stable Outlook
Ratio of locally-sourced Local Government Unit (LGU) income to total current operating income maintained at or above 15.0 percent (%)	33.0 (2016)	36.2	21.0	15.0	34.4	30.3	29.4

Locally-sourced LGU income increased (PHP, billions)	179.8 (2016)	256.5	144.9	159.4	253.8	252.6	256.2
Utilization of local development fund improved (%)	80.0 (2016)	100.0	100.0	100.0	71.0	69.0	70.8
Subsector Outcome 1.2: Resilient and inclusive monetary and financial sector achieved							
Low and stable inflation rate achieved (%)	1.2 (2018=100)	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.4 (2018=100)	2.4 (2018=100)	3.9 (2018=100)
Ratio of Financial System's Total Assets to GDP maintained (%)	123.4 (2016)	146.3	120.0	125.0	127.4	147.4	144.6 (ao Q2)
Equity market capitalization relative to GDP (%)	95.4 (2016)	107.0	73.3	78.5	85.6	88.39	103.28 (ao Sep)[5]
Size of local currency bond market in % of GDP	32.2 (2016)	45.0	39.2	43.6	34.1	47.8	50.5
Annual value of microfinance loans increased (PHP billion)[6]	52.7 (2016)	>65.4	>95.0	>104.7	78.2	80	81.4 (ao Q2)
Number of access points per 10,000 adults increased (cumulative)[7]	10.1 (2016)	>10.0	>13.0	>14	12.3	29.1	28.7 (ao Q3)
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	28.6	Not a Survey Year	53.0 (est. ao Q3)
Volume of retail e-payments in the country (% of total payments)[8]	10.0 (2018)	-	-	40.0	-	20.0	Not yet available
Microinsurance penetration (% of total population)[9]	27.2 (2016)	34.0	40.8	44.8	44.6	46.2	Not yet available
Subsector Outcome 1.3: Sustainable and resilient external sector							
Exports of goods (USD billion)[10/]	42.7	54.8 – 56.9	46.1 – 47.1	47.9 – 49.4	53.5	48.2	54.2
Exports of services (USD billion)[10/]	31.2	47.2 – 49.0	37.0 – 37.8	40.0 – 41.2	41.3	31.8	33.6
Current account balance to GDP ratio	-0.4	.01	0.8[11/]	NA	-0.8	3.2	-1.8

Notes:
[1/] 2020 targets were set prior to onset of the COVID-19 pandemic and retained in the midterm update. 2021, 2022, and end-of-plan targets were adjusted to take into consideration the effects of the COVID-19 pandemic.
[2/] Targets for 2021-2022 are based on the macroeconomic assumptions and fiscal program approved by the DBCC on July 28, 2020 via Ad Referendum.
[3/] 2000-based nominal GDP was used for 2016 baseline and 2020 targets, while 2018-based nominal GDP was utilized for 2021 and 2022 targets, and 2019, 2020 and 2021actual figures.
[4/] Actual obligations vs current year available appropriations as of December 1, 2021
[5/] Microfinance figures include banks and microfinance NGOs. Data from the Securities and Exchange Commission refers to Microfinance NGOs accredited by the MicroFinance NGO Regulatory Council.
[6/] 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.
[7/] Share of retail e-payments to the total number of retail payments.
[8/] Number of people with microinsurance coverage consists of insured principal members and dependents.
[9/] Based on Bangko Sentral ng Pilipinas (BSP) balance of payment
[10/] Figures are BSP projections approved by the Monetary Board on October 08, 2020