PUBLIC FINANCIAL MANAGEMENT AND DEBT SUSTAINABILITY ASSESSMENT

I. Public Financial Management

1. The government has implemented major reforms to strengthen Public Financial Management (PFM) Systems. The implementation of the "PFM Reforms for 2011–2016" has shifted the government's PFM reform program to a higher level in terms of fiscal discipline and allocative and technical efficiency, as well as transparency and citizen empowerment.

2. The 2016 Public Expenditure and Financial Accountability report validates the government's efforts to strengthen PFM. The PFM Committee resolved to encourage both the Senate Committee on Finance and the House Committee on Appropriations to maximize the use of Commission on Audit (COA)'s annual audit reports in their exercise of legislative oversight over budget execution and to serve as resource persons in the PFM Committee meetings. The PFM Committee also invited the Department of Information and Communications Technology to be a regular member of the PFM Committee.

3. Looking ahead, the government has recognized that improved PFM will be critical in ensuring that the Philippines can achieve its development goals. A transparent and credible PFM system supports informed decision-making, and the effective and efficient provision of public goods and services. Under the umbrella Philippine Development Plan, 2017–2022, the government instituted an aggressive reform agenda to promote effective and honest governance to create an enabling environment for citizens and the private sector. The framework of the PFM Roadmap 2017–2022 will strengthen the foundation of the PFM system by focusing on three components: (i) shift to annual cash appropriations; (ii) automation reform initially through the Budget and Treasury Management System (BTMS); and (iii) creation of an Office of the Comptroller General. The key reforms target improvements in costing, cash management, planning and budgeting, and procurement.

4. Current key reforms are being undertaken to implement the "PFM Reform Roadmap 2017–2022". The Cash Budgeting System (CBS) was adopted in the preparation of the 2019 Proposed National Budget to speed up budget utilization, promote faster delivery of government services, and foster discipline among agencies through better planning and management of their programs and projects, including early procurement. The BTMS is being developed to pave the way for an Integrated Financial Management Information System to simplify, harmonize, and improve the country's financial management processes and related information systems. The Department of Budget and Management (DBM) rolled out the Budget Utilization Module of the BTMS to four pilot National Government Agencies (NGAs). Subsequently, DBM officially launched the BTMS in 2019 and it is being rolled out to the rest of NGAs in preparation for the mandatory adoption of the system by 1 July 2019. The e-Learning Course Modules for the BTMS were developed, in collaboration with the United States Agency for International Development, to provide another training avenue to assist and guide NGAs on the key processes of the BTMS. The PFM Competency Program was also developed by the DBM and the Bureau of the Treasury to enhance the competency of PFM practitioners.

5. In addition, the government continued to set accounting standards and rules. Guidelines for converting from the Philippine Government Chart of Accounts, under the New Government Accounting System, to the revised chart of accounts for local government units and government corporations were prescribed. Also, guidelines were prescribed for the preparation of financial statements and other financial reports and implementation of the Philippine Financial Reporting Standards by Government Corporations Classified as Government Business Enterprises (GBE), as well as the adoption of Philippine Public Sector Accounting Standards (PPSAS) by Non-GBE. An additional six PPSAS, and updates on PPSAS prescribed through COA Resolution No. 2014-003 were adopted effective 1 January

2017.[1] Updates were made to the professional standards framework emphasizing the independence of supreme audit institutions, the importance of transparency and accountability, and revisions on financial, compliance, and performance audit guidelines. The Revised Framework was based on a study of applicable laws, the International Standards of Supreme Audit Institutions and the International Organization of Supreme Audit Institutions (INTOSAI) Framework of Professional Standards. Revisions made by INTOSAI concerned the fundamental concepts and principles of the three types of audit: financial, compliance, and performance were adopted.

6. In 2018, the use of the Internal Auditing Standards for the Philippine Public Sector and Internal Control Standards for the Philippine Public Sector were prescribed.[2] The Citizen Participatory Audit was adopted and institutionalized. Concurrently, COA adopted the INTOSAI Supreme Audit Institution Performance Measurement Framework to measure the Commission's performance.[3]

7. Over the past several years, the government introduced several measures to reform procurement. The implementation of early procurement policy, and the revision of the Implementing Rules and Regulations (IRR) of Republic Act No. 9184 covering maximization of bulk-buying powers of the Procurement Service will result in substantial cost savings. In addition, the government adopted the Agency Procurement Compliance and Performance Indicators to assess the procurement practices of the agencies and modernized the Philippine Government Electronic Procurement System. As a result, a total of 422 procurement items for both common-use supplies and equipment and non-common use supplies and equipment, consisting of specialized goods, consulting services, and infrastructure projects, were completed in 2018 amounting to ₱170.96 billion with a total government savings of ₱10.5 billion. This is higher by 180.75%, or ₱6.76 billion more than the ₱3.74 billion savings generated in 2017.

8. The government has also instituted reforms that allow for more transparency in government operations and over the use of public funds. Transparency has been strengthened through the adoption of the Transparency Seal, which requires all government agencies to disclose key information through their respective websites. The Executive Branch operationalized the People's constitutional right to information and state policies to full disclosure and transparency to the public service. The 2017 Open Budget Index assigned the Philippines a score of 67 for transparency, representing an improvement over 2015 when the Philippines received a score of 64 for providing the public with substantial budget information. This score ranks the Philippines first in Asia in budget transparency. However, for public participation, the Philippines scored only 47 compared to 67 in 2015. The Philippines provides the public with limited opportunities for the public to engage in the budget process.

9. Finally, as a result of the government's anti-corruption efforts, the Philippines placed 99th out of 180 countries in Transparency International's 2018 Corruption Perception Index. This represents a marked improvement from 2017 when the Philippines was ranked in 111th place. Further, the Philippines maintained its 10th place (2017) in 2018 among the 16 economies covered by the Pacific by the Political and Economic Risk Consultancy Ltd.'s annual review of corruption in Asia. The World Bank's 2019 "Ease of Doing Business" rankings place the Philippines at 95 out of 190 economies, an improvement from 2018 rankings at 124. The improvement in the Philippines' ranking has been attributed to regulatory reforms such as the Ease of Doing Business Act.

[1] COA Resolution No. 2017-006 dated 26 April 2017.
[2] COA Circular 2018-003 dated 21 November 2018.
[3] COA Resolution No. 2017-023 dated 21 December 2017.

10. To sustain these PFM reforms, there is a need to strengthen the legal and institutional framework. The proposed Public Financial Accountability Act, which is still pending in Congress, will enforce accountability in PFM by strengthening Congress' power of the purse, instituting an integrated PFM system, and increasing budget transparency and participation. The proposed Budget Reform Bill, which is also pending in Congress, seeks to modernize budgetary practices in the Philippines. With its passage, many key PFM reforms will be institutionalized and likewise secured to foster fiscal discipline and minimize transitional systemic risks linked to succession in administrations. There is need to review the institutional framework for PFM. Several agencies are involved in the implementation and oversight of PFM systems and in some cases, they have overlapping mandates. This fragmentation dilutes accountability and demands close coordination among these agencies, as well as a reliable system of checks and balances.

II. **Debt Sustainability**

11. A recent debt sustainability assessment by the IMF confirmed that the Philippines' debt levels are sustainable.[4] Prior to the pandemic, debt as a percentage of gross domestic product (GDP) has trended downwards, with a debt stock that is heavily weighted to longer tenors and domestic currency issues. According to an Article IV assessment released by the International Monetary Fund (IMF) in February 2020, "Prudent fiscal management and strong growth are expected to reduce the general government gross debt–GDP ratio from 38.9% of GDP in 2018 to 37.5% in 2024". Likewise, external debt was expected to fall to 19.1% of GDP in 2024, from 23.9% in 2018. In the assessment, the IMF provides a baseline which is built on a number of assumptions including real GDP growth, inflation, and the primary balance n. Otherwise, the IMF looks at five scenarios: interest rate shock, growth shock, non-interest current account shock, a combined shock, and a real depreciation shock. In the interest rate and growth scenarios, the shocks do not significantly alter the declining debt–GDP levels which fall below 20% of GDP by 2024. A real depreciation in the currency of 30% pushes the debt–GDP ratio to 33% of GDP before falling to 28% in 2024. In response to macroeconomic shocks, a growth shock would temporarily increase the debt ratio to a peak of 41.8% of GDP in 2021.

12. Corroborating this assessment, the Governor of the Bangko Sentral ng Pilipinas recently released a press statement covering the Philippines' debt position. As of 31 December 2019, outstanding external debt represented an equivalent $83.6 billion. The largest share of total outstanding debt was held by foreign banks and other financial institutions, followed by loans from official sources such as multilateral financial institutions and other bilateral creditors. The Philippines' largest bilateral creditors were Japan at $8.1 billion, People's Republic of China at $685 million, and Singapore at $439 million. Foreign investors held 30.4% of the total debt stock. Public sector external debt totaled $42.8 billion, of which $36.0 billion were national government borrowings with the balance consisting of the debts of government-owned and controlled corporations, government financial institutions, and the central bank.

13. Key external debt indicators remain at prudent levels which confirms the Philippines' sustained ability to debt in the medium- to long-term. Total outstanding debt–gross national income was only 19.4% and the debt stock exhibited a favorable maturity profile. The weighted average maturity stood at 16.7 years, down slightly from 17.1 years during the previous quarter. Gross International Reserves stood at $87.8 billion as of end-December 2019 and represented 5.1 times cover of short-term debt under the original maturity concept. The debt service ratio improved to 6.5% from 6.6% for the same period a year ago.[5]

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[4] International Monetary Fund (IMF). 2020. *Philippines: 2019 Article IV Consultation-Press Release; and Staff Report.* Washington D.C.

[5] The debt service ratio relates principal and interest payments to exports of goods and receipts from services and primary income.

14. Since the COVID-19 pandemic, the IMF provided an assessment letter to the ADB which incorporates its economic shocks. Under the updated scenario, reflecting a macroeconomic growth shock, the IMF projects the general government gross debt–GDP ratio to reach 42.9% in 2020 and 2021.

15. **Impact of the COVID-19 Pandemic Response Countercyclical Support Facility Loan.** The ADB modelled the impact of $1.5 billion in additional debt based on February 2020 IMF Article IV Debt Sustainability Analysis. With the expected lower 2020 GDP growth of -1% due COVID-19, a new baseline projection was generated where the public debt–GDP ratio increases to 41.5% in 2020, before falling to 39.6% by 2024. The additional $1.5 billion CPRO loan represents an increase of 0.4% of the total outstanding balance. As a percent of GDP, this additional debt would increase the starting public debt–GDP to 41.9% of GDP in 2020 and gradually fall to 39.9% of GDP by 2024.

Figure 1: Impact of the Pandemic Response Option Loan on Public Debt Sustainability

General Government Gross Debt/GDP							
	2018	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Baseline	38.9	38.9	41.5	41.0	40.5	40.0	39.6
With COVID-19 Pandemic Response Option Loan of [$1.5 billion]	38.9	38.9	41.9	41.4	40.9	40.4	39.9

COVID-19 = coronavirus disease, GDP = gross domestic product.