

**EXECUTIVE
BOARD
MEETING**

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Supplement 1

August 29, 2016

To: Members of the Executive Board

From: The Secretary

Subject: **Philippines—Staff Report for the 2016 Article IV Consultation—
Informational Annex**

Board Action:	Executive Directors' consideration (Formal)
Tentative Board Date:	Wednesday, September 14, 2016
Publication:	Not yet decided*
Questions:	Mr. Guajardo, APD (ext. 38320)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	Wednesday, September 7, 2016—WTO After Board Consideration—Asian Development Bank, European Investment Bank

***At the time of circulation of this paper to the Board, the authorities have indicated that they need more time to consider whether they will consent to the Fund's publication of this paper. Publication will only proceed upon the receipt by the Fund of the member's explicit consent.**



PHILIPPINES

August 26, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Asia and Pacific Department

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FUND RELATIONS

(As of July 31, 2016)

Membership Status: Joined December 27, 1945; Article VIII

General Resources Account

	SDR Millions	Percent of Quota
Quota	2,042.90	100.00
IMF holdings of currency (holdings rate)	1,773.51	86.81
Reserve tranche position	269.44	13.19
Lending to the Fund New Arrangements to Borrow	51.70	

SDR Department

	SDR Millions	Percent of Allocation
Net cumulative allocation	837.96	100.00
Holdings	846.46	101.01

Outstanding Purchases and Loans: None

Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR millions)	Amount Drawn (SDR millions)
Stand-by	04/01/98	12/31/00	1,020.79	783.23
EFF	06/24/94	03/31/98	791.20	791.20
Stand-by	02/20/91	03/31/93	334.20	334.20

Projected Payments to Fund: None

Exchange Arrangement

The de jure exchange rate arrangement is classified as *free floating*, while the de facto exchange arrangement is classified as *floating*. The value of the Philippine peso is determined in the interbank foreign exchange market; the Bangko Sentral ng Pilipinas (BSP) intervenes in the spot and forward markets in order to smooth undue short-term volatility in the exchange rate and to strategically build forex reserves. The Philippines maintains an exchange system that is free of multiple currency

practices and restrictions on the making of payments and transfers for current international transactions except for exchange restrictions maintained for security reasons and notified to the Fund pursuant to Executive Board Decision 144-(52/51).

Article IV Consultation

Philippines is on the standard 12-month cycle. The 2015 Article IV consultation was held on August 26, 2015 (IMF Country Report No. 15/246).

Financial Sector Assessment Program (FSAP) and Report on Standards and Codes (ROSC) Participation:

MCM: A FSAP was conducted during the fourth quarter of 2001; FSAP missions visited Manila in October and November–December 2001. The final version of the report was discussed with the authorities in June 2002. The associated FSSA was discussed by the Executive Board together with the Article IV staff report in September 2002. The FSAP report was published in March 2004. The FSAP update mission took place in November 2009, and the report was published in April 2010.

FAD: Discussions on fiscal transparency were held in Manila in September 2001. The ROSC report was discussed by the Executive Board in September 2002 together with the Article IV staff report, and published in October 2002. The update to the ROSC report was published in June 2004. In addition, a pilot Fiscal Transparency Evaluation mission took place in February 2014 and the report was published in June 2015 (IMF Country Report No. 15/156).

STA: A ROSC Data Module mission was conducted in September 2003, and the report was published in August 2004.

Technical Assistance

The Philippines is an intensive user of IMF technical assistance (TA), particularly in fiscal and financial areas. Improvements have been made in all areas, but the translation of recommendations into law has lagged.

FAD has concluded a five-year TA project financed by the Millennium Challenge Corporation to improve the basic functions of tax administration by the Bureau of Internal Revenue (BIR) (2011–16), in line with recommendations made by FAD TA missions in 2005, 2008, and 2009. The project provides for a resident tax administration advisor and an extensive program of short-term expert visits. In the extended project (2013–16) the main priorities were intended to “institutionalize” the new procedures implemented in the arrears management and VAT audit pilots, enhance the compliance improvement strategy (CIS), integrate redesigned business process with eTIS, and introduce further institutional, governance and management strengthening to help ensure sustainability of the reforms. Particular progress has been made in VAT audit, arrears management and compliance improvement strategy. In addition, TADAT assessment took place in December 2015 to provide a picture of the current state of operations within the BIR against international good practice in tax administration. A tax policy TA in April 2016 made a comprehensive proposal of tax reform in the ASEAN environment. FAD’s past TA missions on tax policy provided advice that

constituted the basis for the reform of excises on tobacco and alcoholic beverages implemented in early 2013 and publication of tax expenditures to improve transparency and accountability of tax incentives supported by the Tax Investment and Management Act (TIMTA). TA on public financial management (PFM) seeks to establish effective and efficient budget and treasury management. In addition to the Fiscal Transparency Evaluation, TA on medium-term budget framework, government cash management, formulation and drafting of the PFM bill, and contingent liabilities management took place in 2014–2016. In line with past PFM advice, the government introduced a Treasury Single Account and is reviewing its cash management and planning. It now produces a midyear report on the macroeconomic and fiscal outlook and midyear budget execution. In addition, the revenue and expenditure from off budget accounts are now presented in budget documents. Moreover, the PFM bill has been submitted to the Congress.

On the legal area, LEG provided TA to the Philippines on Central Banking Legislation in 2012, and provided advice on the amendment to the Philippines' Central Banking Law in November 2013. In April 2013, LEG also provided TA on Implementation of Targeted Financial Sanctions Obligations under UN Security Council Resolutions Relation to Terrorism Financing.

MCM provided a series of TA in 2010–15 on developing and implementing a risk-focused supervisory approach in keeping with the Basel Core Principles and other key international supervisory practices and on timely identification and resolution of problem institutions. Among the long list achievements are: improved quality and timeliness of supervisory actions and related supervisory reports; issuance of new regulations covering securities investments and stress testing; and selected areas of Basel III implementation including liquidity coverage ratio and leverage ratios. MCM TA efforts were also devoted to the implementation of the supervisory core training initiative. The in-house training initiative is now self-sustaining, with 21 courses rolled out, and the quality of the supervisory reports has shown considerable improvement. Finally, two missions in 2015 and 2016 assessed the institutional needs for strengthening the framework for financial stability analysis and provided a road map for a comprehensive financial stability framework, focusing on the institutional setup, monitoring and tools, and crisis management.

In addition, three MCM TA missions on liquidity management and forecasting and on the implementation of an interest rate corridor took place 2013–2015 to strengthen monetary policy operational framework. The BSP has made progress on developing its liquidity forecast capacity, and the new interest rate corridor system was introduced in June 2016.

Other areas of MCM TA included advice on financial market development. A workshop on the deepening of government securities market was held in 2014, and TA on exchange consolidation and securities regulation was delivered in 2015.

A series of STA TA missions on Government Finance Statistics took place in 2012 and 2013 to assist the authorities in compiling and disseminating government finance statistics in accordance with Government Finance Statistics Manual 2001. Additionally, during 2012 STA provided TA to the Philippines in the areas of Balance of Payments Statistics, Data Dissemination Standards, National Accounts, and producer and consumer price indices. In late 2014, a TA mission worked with the Philippine Statistics Authority (PSA) on source data and compilation procedures of quarterly accounts, and the implementation of the new System of National Accounts 2008 (2008 SNA).

Two MFS missions were fielded in August 2014 and September 2015 to advance the work on the introduction of the standardized report form (SRF) for other financial corporations (OFCs). The authorities have submitted test SRF-data for several types of OFCs, which have been reviewed by STA. It is expected that the SRF will be introduced by end-2016.

Resident Representative

A Resident Representative has been stationed in Manila since January 1984. Mr. Shanaka Jayanath Peiris has been the Resident Representative for the Philippines since September 2012.

IMF-WORLD BANK COLLABORATION

(As of June 30, 2016)

Background

The Bank and the Fund country teams for the Philippines exchanged views to coordinate the teams' work during 2016–17 through the resident representative's office and headquarters missions. The teams agreed on the Philippines' main macroeconomic challenges to navigate the uncertain global environment to maintain macroeconomic stability, create policy space to meet future potential shocks, and build the foundations for faster and more inclusive growth. Based on this shared assessment, the teams identified three structural reform areas as macro-critical, in view of their central role in achieving sustained inclusive growth: (1) raising investment, including public sector capital spending; (2) strengthening public finance and social safety nets; and (3) financial sector development. Table 1 details the specific activities planned by the two country teams during June 2016–June 2017, along with their expected deliverables, and the division of labor.

The Key Areas with Joint Programs

Strengthening Public Finance

The continued focus on mobilizing fiscal revenue to help fund spending in support of sustained and inclusive growth, while strengthening the resilience to shocks. The Fund and the Bank have a long standing program of support for strengthening public finance and involves close coordination in tax policy reform including fiscal incentives rationalization and monitoring of the sin tax implementation; management of fiscal risks and reporting; debt management strategy; assisting the Department of Budget and Management in improving public financial management and support for the Bureau of Treasury's lead role in implementation of a Single Treasury Account (TSA) and cash management.

Financial Sector

A joint Bank/Fund Financial System Stability Assessment took place in 2009, following up on the initial joint FSAP in 2002. Following the FSAP recommendations, the Fund has focused on technical assistance in bank supervision and resolution. The Bank has taken the lead in the nonbank financial sector and crisis simulations. Joint areas of interest are banking sector soundness and resolution, financial inclusion and capital market development.

Broad agreement among the two teams emerged on the key issues and challenges, and on the division of tasks to tackle these. It was agreed that further details on collaboration, as necessary, would be agreed at the technical level as work progresses. The teams have the following requests for information and collaboration from their counterparts:

- The Fund team requests to be kept informed of progress in World Bank's discussions with the government on financing of infrastructure, PPPs, and implementation of the development policy loan. Review and sharing of analytical work, in particular the Philippine Development Report (PDR) series, would be welcome, in addition to follow up from the 2010 FSAP, and on work related to the reform of social safety nets, public expenditure reviews, and public financial management.
- The Bank team requests to be kept informed of the Fund's assessments of macroeconomic policies and prospects and to coordinate closely the technical assistance work, especially in areas such as budget reform, tax policy and administration, financial sector development and soundness as well as in public expenditure analysis and management, where extensive Bank work is ongoing.

Table 1. Philippines: Bank and Fund Planned and Ongoing Activities in Macro-Critical Structural Reform Areas, June 2016-June 2017

	Products	Expected Delivery Date
Bank Work Program	<ul style="list-style-type: none"> • Mindanao jobs report • Philippine Economic Update • Programmatic policy analysis and implementation support for inclusive growth. • Tax policy notes • Technical support for discussions on TIMTA • Programmatic support on improving statistics, including support to the new Philippine Statistics Authority and the Securities and Exchange Commission • Implementation of policy reforms to enhance quality and quantity of public infrastructure spending particularly tracking of expenditures through use of Unified Account Code Structure (UACS) • Transition notes • Game changers for inclusive growth: an agenda for action • Report on the Observance of Standards and Codes, Accounting and Auditing (A&A ROSC) • Programmatic Public Sector Governance Program, including program spending assessments, a report on open government and program performance tracking and a report on Open Roads and an Open Roads platform • Supporting the development of a National Competition Policy • Local governance and accountability technical assistance • PFM project based on PEFA assessment • Financial development and inclusion • Development Policy Lending Series - DPL 4 and new series 	<ul style="list-style-type: none"> • Ongoing • Semi-annually • Completed in June 2016 • Completed in June 2016 • Ongoing • Ongoing • Ongoing • Completed in July 2016 • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing
Fund Work Program	<ul style="list-style-type: none"> • Article IV consultation with a focus on the medium term challenges of supporting a well managed rise in investment and a more inclusive growth. • Article IV staff report • Public financial management (cash management, transparency and budget execution) TA • Tax policy TA • Banking supervision and bank resolution TA • Liquidity management and forecasting TA • Implementation of an interest rate corridor TA • Financial stability framework TA • Statistical data compilation and dissemination TA 	<ul style="list-style-type: none"> • June/July 2016 • August 2016 • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing
Joint Work Program	<ul style="list-style-type: none"> • Joint tax policy note for the new administration • Management of Fiscal Risk and GOCC/PPPs • DoF-BTr Debt Management Strategy • Implementation of PFM reforms related to Fiscal Transparency Evaluation of Fund and PEFA assessment update led by Bank. • Review of tax policy notes by the Bank and update of recommendations by the Fund focused on financial sector taxes and related to ASEAN Economic Community 2016. • Macro-fiscal simulations of scaling up public investment and public investment management (PIM) institution reforms 	<ul style="list-style-type: none"> • August 2016 • Ongoing • Ongoing • Ongoing • Ongoing • Ongoing

IMF-World Bank Collaboration Matrix: Macro-Critical Structural Issues

	Short-Term Reforms	Medium- and Long-Term Reforms of Direct Relevance to IMF 1/	Other Structural Reforms 2/
Raising potential growth	Investment incentives Energy sector taxation Oil deregulation law	Corporate sector Corporate sector performance and vulnerabilities (IMF/WB) Investment environment Regulatory framework (WB) Corruption /rule of law (WB) Investment incentives (IMF) Energy Sector Power supply and expected shortage (WB) Energy sector taxation (IMF) Rice market NFA operation and efficiency (WB) Pricing and subsidy of rice (WB/IMF) Labor market (WB in relation to education) Regulatory framework (WB) Wages/union structure (WB) Structural reforms in key sectors (e.g., ports and shipping, water, tourism, agriculture, and IT-enabled services) (WB)	Corporate governance Concentration/oligopoly/monopoly (WB-2005 CEM)
Public finance	BIR reform Cash management Expenditure efficiency (capital spending)	Revenue administration BIR reform (IMF/WB) BOC (IMF in relation to customs)/WB in relation to trade facilitation) Revenue forecasting (WB/IMF) Public financial management Cash management (IMF) IFMIS/fiscal reporting (IMF) Budget preparation (IMF/WB) Budget execution (IMF/WB) Tax Policy (IMF/WB) Expenditure efficiency/policy Social safety net (WB) Level of spending (IMF/WB) Efficiency (WB) Medium-term Expenditure Framework (WB/IMF) GOCC reform (WB) PIM reforms and PPPs (WB/IMF) Debt Management(World Bank/IMF)	
Financial sector		Bank supervision and Financial Stability Framework (IMF) Banking sector soundness and resolution (IMF/WB) PDIC (WB) Contingency Framework (IMF/WB) Capital market development (IMF/WB) International coordination to limit regulatory arbitrage (IMF) Financial Inclusion (IMF/WB)	

1/ Issues directly relevant for IMF work; (IMF) means work done in-house, (IMF/WB) implies in-house work in parallel or collaboration with the WB; and no specific reference means input required from other institutions.

2/ Noncritical, but useful input to IMF analysis.

RELATIONS WITH ASIAN DEVELOPMENT BANK

(As of June 30, 2016)

Since joining the Asian Development Bank (ADB) in 1966, the Philippines has received 237 sovereign loans and grants financed by ADB Special Funds for a total of \$15,911.12 million including nonsovereign financing amounting to \$995.37 million. Agriculture and natural resources, public sector management, energy, and finance sector account for the largest proportion of ADB lending (combined 60 percent of the total) (Table 2). As of 30 June 2016, cumulative direct value-added cofinancing for the Philippines amounted to \$1.4 billion and \$90.21 million for TA projects.

Table 2. Cumulative Sovereign and Nonsovereign ADB Lending to Philippines (As of June 30, 2016)			
Sector	No. of Loans	Amount of Loans (US\$ millions)	Percent (by amount)
Energy	33	2,136.7	12.6
Public sector management	13	2,802.0	16.5
Agriculture and natural resources	60	3,128.1	18.4
Transport and ICT	31	1,584.7	9.3
Finance	35	1,993.9	11.7
Multisector	8	916.6	5.4
Water and other municipal infrastructure and services	29	1,685.6	9.9
Health and social protection	7	648.7	3.8
Education	11	1,320.5	7.8
Industry and trade	12	792.2	4.7
Total	239	17,009.9	100.0

ADB's private sector operations in the Philippines began in 1986. As of June 30, 2016, cumulative approvals in 30 projects amounted to \$1,109 million. ADB's private sector operations in the Philippines include financing for power plants, roads, and air transport, and investments in banks and private equity funds. In December 2014, ADB approved a \$75 million (₱3.375 billion) loan for the expansion and renovation of the Mactan Cebu Airport terminal (the first large-scale PPP project awarded under the Aquino government's PPP program). Another two loans were approved in 2015 for \$20 million to support the 150-Megawatt Burgos Wind Farm Project, and for \$221.807 million to support the Tiwi and Makban Geothermal Power Green Bonds project.

The Country Partnership Strategy (CPS) 2011–2016 was endorsed by the ADB Board of Directors on October 26, 2011. The CPS is aligned with the government’s Philippine Development Plan 2011–2016 and ADB’s Strategy 2020. The key objective of ADB support will be to help Philippines achieve, high, inclusive, and sustainable growth. The intended outcomes of the CPS are: (i) improved investment climate and private sector development; (ii) more efficient, effective, and equitable social service delivery; (iii) reduced environmental degradation and vulnerability to climate change disasters; and (iv) strengthened governance and reduced corruption. A CPS Final Review was completed in June 2016 and sent for validation to Independent Evaluation Department. The results will inform the next CPS 2017–2022. The Country Operations Business Plan (COBP) 2016–2018, the fifth under the CPS 2011–2016, was approved in December 2015. The next COBP 2017–2019 is expected for ADB Management approval by September 2016.

STATISTICAL ISSUES

(As of August 2, 2016)

I. Assessment of Data Adequacy for Surveillance	
General: Data provision to the Fund has some shortcomings, but is broadly adequate for surveillance.	
National accounts: As part of a World Bank-funded project, <i>Improving the Quality and Usefulness of the Philippine System of National Accounts</i> , the National Statistical Coordination Board (NSCB) rebased the national accounts from 1985 to 2000. Continuing improvements include ongoing efforts to fully implement the <i>System of National Accounts, 2008</i> . Despite the authorities' efforts to improve quality, weaknesses remain in the national accounts. These include the coverage of the GDP and the statistical discrepancies in the GDP estimates between the expenditure and production sides. The authorities are working on improving (i) the accuracy of the GDP volume measures; (ii) the coverage of the public corporations sector; (iii) the accuracy of the quarterly GDP data; and (iv) the adoption of benchmark techniques to reconcile quarterly and annual national accounts estimates. The NSCB is currently participating in the IMF Statistics Department's <i>Project on the Implementation of the System of National Accounts and the International Comparison Program</i> , funded by the Government of Japan. This three-year technical assistance project provides assistance to improve the quality of the national accounts and price statistics. National accounts are expected to be revised in the near future based on the recently released 2012 Census of Philippine Business and Industry (CPBI).	
Price statistics: In July 2011, the National Statistics Office introduced a rebased consumer price index (CPI). The updated CPI is compiled using weights based on the 2006 Family Income and Expenditure Survey. Data from the 2008 Commodity and Outlet Survey were used to augment the provincial market baskets. One important methodological change implemented in the updated CPI is the adoption of the internationally recommended <i>Classification of Individual Consumption by Purpose (COICOP)</i> for the classification of all items. As noted in the above section, assistance will be provided to improve the quality of price statistics in Philippines.	
External sector statistics: The BSP has completed the final-stage implementation of BOP compilation to BPM6 framework in March 2014. The compilation of IIP data based on BPM6 framework was completed in September 2014. Steps have been taken to improve the quality of balance of payment statistics. In 2005, the Central Bank of Philippines (BSP) created a Department of Economic Statistics, with one of its units to concentrate on compiling, analyzing, and publishing the balance of payments and the international investment position. Since deregulation in the early 1990s, international transactions have increasingly flowed through nontraditional channels that are not adequately covered by the statistical reporting system. The authorities have introduced new data sources, including the Cross Border Transactions Survey and administrative-based reporting systems to address coverage issues, but challenges remain. The Foreign Currency Deposit Units (FCDUs), which account for about 70–75 percent of foreign exchange settlements, are exempt from reporting requirements because of strict banking secrecy rules.	
Monetary and financial statistics: Compilation of monetary and financial statistics (MFS) largely conforms to the Fund's methodology. A joint effort between the Insurance Commission, SEC, GOCS, BSP to gather data and publish the Other Financial Corporation's Survey is ongoing.	
Government finance statistics: Provision of fiscal data is broadly adequate for surveillance. Major areas for improvement include detailed data for levels of the public sector beyond the national government as well as transition of fiscal data reporting to the GFSM 2001 format. Fiscal Transparency ROSCs were conducted in 2002 and 2004.	
II. Data Standards and Quality	
Philippines subscribed to the Special Data Dissemination Standards (SDDS) in August 1996.	A data ROSC was published in August 2004.

Philippines: Table of Common Indicators Required for Surveillance

(As of July 25, 2016)

	Date of Latest Observation	Date Received	Frequency of Data ⁷	Frequency of Reporting ⁷	Frequency of Publication ⁷	Memo Items:	
						Data Quality—Methodological Soundness ⁸	Data Quality—Accuracy and Reliability ⁹
Exchange rates	7/25/2016	7/25/2016	D	D	D	O	O
International reserve assets and reserve liabilities of the monetary authorities ¹	6/2016	7/2016	M	M	M	LO	LO
Reserve/base money	6/11/2016	7/11/2016	D	W	W	O, LO, LO, LNO	LO, O, O, O, LO
Broad money	5/2016	7/2016	M	M	M		
Central bank balance sheet	3/2016	7/2016	M	M	M		
Consolidated balance sheet of the banking system ²	5/2016	7/2016	M	M	M		
Interest rates ³	6/30/2016	6/30/2016	D	D	D	O	O
Consumer price index	6/2016	7/2016	M	M	M	O, O, O, O	O, LO, O, LO, LO
Revenue, expenditure, balance and composition of financing ⁴ —general government ⁴	2015	7/2016	Q	Q	Q	LO, LO, O, O	LO, LO, LO, LO, LO
Revenue, expenditure, balance and composition of financing ⁴ —central government	4/2016	7/2016	M	M	M		
Stocks of central government and central government-guaranteed debt ⁵	4/2016	7/2016	M	M	M	LNO	LNO
External current account balance	3/2016	6/2016	M	M	M	O, LO, LO, LO	LNO, LO, O, LO, LO
Exports and imports of goods and services	3/2016	6/2016	M	M	M		
GDP/GNP	Q1:2016	6/2016	Q	Q	Q	LO, LO, O, LO	LNO, LNO, O, LO, O
Gross external debt	Q1:2016	6/2016	Q	Q	Q	O	O
International investment position ⁶	Q1:2016	6/2016	Q	Q	Q	O	O

¹ Any reserve assets that are pledged or otherwise encumbered should be specified separately. Also, data should comprise short-term liabilities linked to a foreign currency but settled by other means as well as the notional values of financial derivatives to pay and to receive foreign currency, including those linked to a foreign currency but settled by other means.

² Foreign, domestic bank, and domestic nonbank financing

³ Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes, and bonds.

⁴ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵ Including currency and maturity composition.

⁶ Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷ Daily (D), Weekly (W), Monthly (M), Quarterly (Q), Annually (A), Irregular (I); Not Available (NA).

⁸ Reflects the assessment provided in the data ROSC or the Substantive Update (published on August 25, 2004, and based on the findings of the mission that took place during September 1–16, 2003) for the dataset corresponding to the variable in each row. The assessment indicates whether international standards concerning concepts and definitions, source classification/sectorization, and basis for recording are fully observed (O), largely observed (LO), largely not observed (LNO), or not observed (NO).

⁹ Same as footnote 8, except referring to international standards concerning source data, statistical techniques, assessment and validation of source data, assessment and validation of intermediate data and statistical outputs, and revision studies.