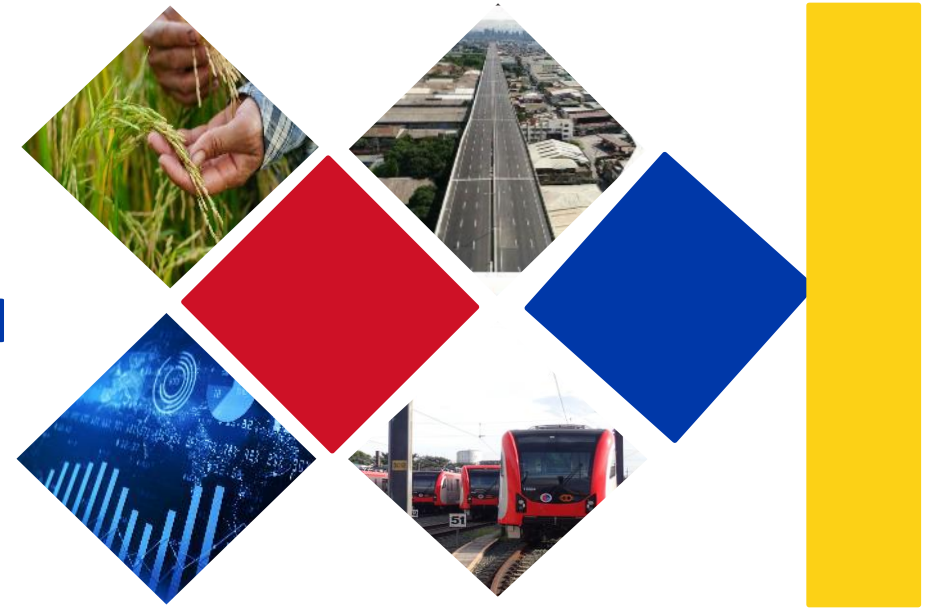




# Republic of the Philippines

## Toward a More Inclusive, Resilient, and Prosperous Economy

July 2023



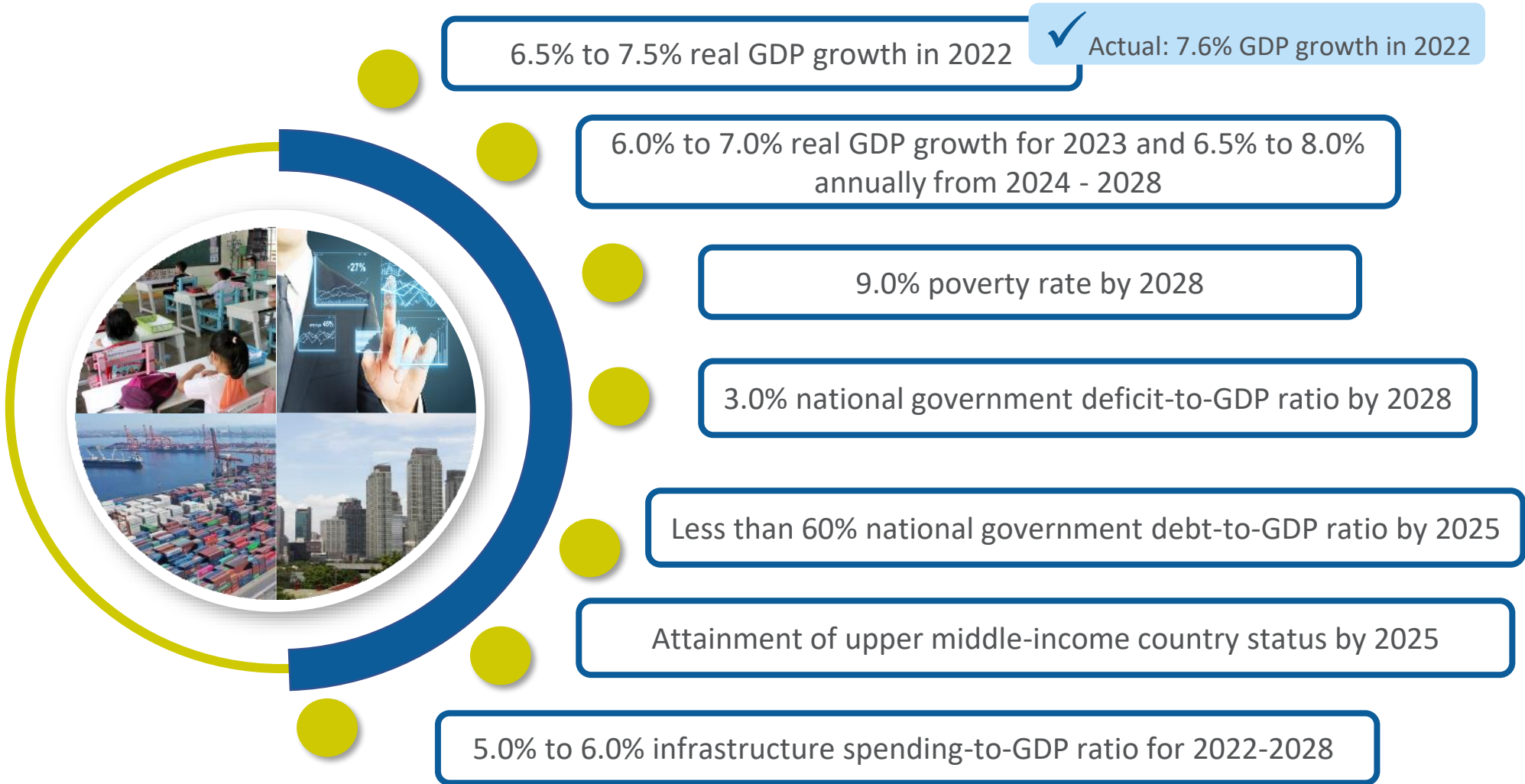
## Key Highlights

|             |   |           |
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# I. Six-Year Game Plan for Economic Transformation

## Charting to a More Inclusive and Resilient Economy

*The Marcos Administration's medium-term macroeconomic and fiscal objectives*



# I. Six-Year Game Plan for Economic Transformation

## Philippine Development Plan 2023-2028

8-point agenda for the near-term to protect purchasing power and mitigate socioeconomic scarring



### Protect the purchasing power of families

- Ensure food security
- Reduce transport and logistics cost
- Reduce energy cost



### Reduce vulnerability, mitigate scarring from COVID-19 pandemic

- Ensure capacity of healthcare in case of surges
- Strengthen social protection
- Address learning losses



### Ensure sound macroeconomic fundamentals

- Improve bureaucratic efficiency and sound fiscal management
- Ensure a resilient and innovative financial sector



### Create more jobs

- Promote investments
- Improve infrastructure
- Ensure energy security



### Create quality jobs

- Increase employability
- Enhance the digital economy
- Advance R&D and innovation



### Create green jobs

- Pursue a green and blue economy
- Establish livable and sustainable communities



### Ensure a level playing field

- Strengthen market competition
- Reduce barriers to entry and limits to entrepreneurship



### Uphold public order and safety, peace and security

## II. Sound Credit Profile Underpinned Swift Economic Recovery

| Metric   | 2017        | 2018         | 2019        | 2020        | 2021         | 2022 <sup>1/</sup> | 2023 <sup>1/</sup>  |
|--|-------------|--------------|-------------|-------------|--------------|--------------------|---------------------|
| <b>Credit Rating</b>                                       |             |              |             |             |              |                    |                     |
| ▪ Moody's  | Baa2/stable | Baa2/stable  | Baa2/stable | Baa2/stable | Baa2/stable  | Baa2/stable        | Baa2/stable         |
| ▪ S&P  | BBB/stable  | BBB/positive | BBB+/stable | BBB+/stable | BBB+/stable  | BBB+/stable        | BBB+/stable         |
| ▪ Fitch  | BBB/stable  | BBB/stable   | BBB/stable  | BBB/stable  | BBB/negative | BBB/negative       | BBB/negative        |
| <b>Real GDP Growth Rate (%), 2018 prices</b>               | 6.9         | 6.3          | 6.1         | (9.5)       | 5.7          | 7.6                | 6.4 (Q1)            |
| <b>GDP Per Capita (US\$), PPP concept (current prices)</b> | 8,199       | 8,795        | 9,365       | 8,467       | 9,230        | 10,497             | 11,638 (Annualized) |
| <b>Inflation Rate <sup>2/</sup> (%), 2018 prices</b>       | 2.9         | 5.2          | 2.4         | 2.4         | 3.9          | 5.8                | 7.2 (Jan-Jun)       |
| <b>Fiscal Balance/GDP (%)</b>                              | (2.1)       | (3.1)        | (3.4)       | (7.6)       | (8.6)        | (7.3)              | (4.8) (Jan-Mar)     |
| <b>Tax Revenue/ GDP (%)</b>                                | 13.6        | 14.0         | 14.5        | 14.0        | 14.1         | 14.6               | 12.8 (Jan-Mar)      |
| <b>National Government Interest Payments/ Revenues (%)</b> | 12.6        | 12.3         | 11.5        | 13.3        | 14.1         | 14.2               | 14.4 (Jan-May)      |
| <b>General Government Debt/GDP (%)</b>                     | 34.9        | 34.4         | 34.1        | 48.1        | 53.4         | 54.2               | N/A                 |
| <b>Gross International Reserves (US\$ bn)</b>              | 81.6        | 79.2         | 87.8        | 110.1       | 108.8        | 96.1               | 100.3 (end-May)     |
| <b>Import Cover (months) <sup>3/</sup></b>                 | 7.8         | 6.9          | 7.6         | 12.3        | 9.7          | 7.3                | 7.4 (end-May)       |
| <b>Overseas Filipinos' Cash Remittances (US\$ bn)</b>      | 28.1        | 28.9         | 30.1        | 29.9        | 31.4         | 32.5               | 10.5 (Jan-Apr)      |
| <b>Foreign Direct Investments (US\$ bn)</b>                | 10.3        | 9.9          | 8.7         | 6.8         | 12.0         | 9.2                | 2.0 (Jan-Mar)       |
| <b>Current Account/GDP (%)</b>                             | (0.7)       | (2.6)        | (0.8)       | 3.2         | (1.5)        | (4.4)              | (4.3) (Jan-Mar)     |
| <b>External Debt/GDP (%)</b>                               | 22.3        | 22.8         | 22.2        | 27.2        | 27.0         | 27.5               | 29.0 (Jan-Mar)      |

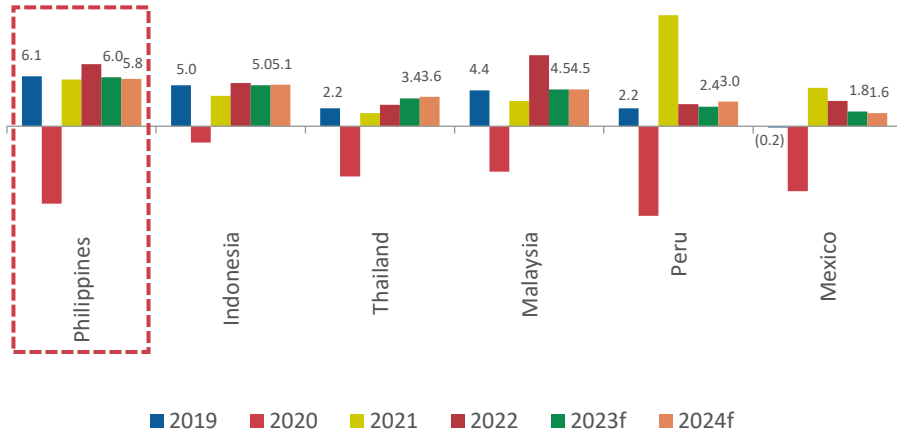
<sup>1/</sup>Preliminary data<sup>2/</sup>Note: Starting 2022, the Philippine Statistics Authority (PSA) adjusted the base year from 2012 to 2018, reflecting the changing household consumption patterns of Filipinos.<sup>3/</sup>Number of months of average imports of goods and payment of services and primary income that can be financed by reserves. Starting 2005, data are based on IMF's Balance of Payments and International Investment Position Manual, 6<sup>th</sup> Ed concept.<sup>4/</sup>Annualized

## II. Sound Credit Profile Underpinned Swift Economic Recovery

### Competitive Even Among Higher-Rated Peers

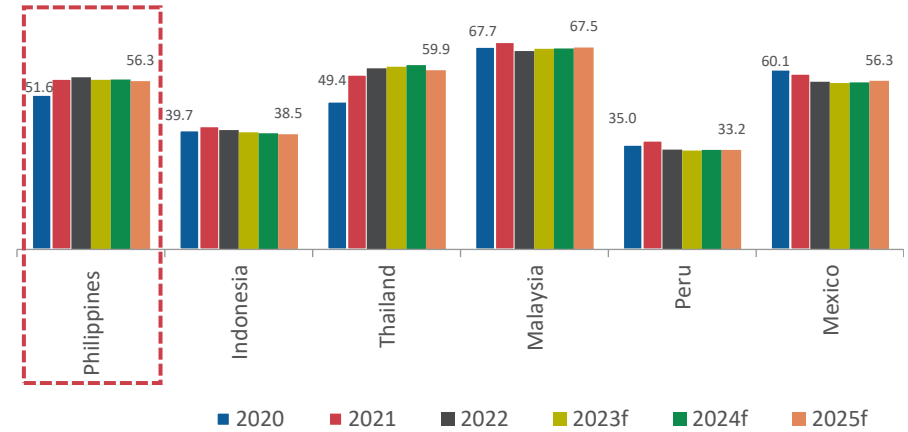
#### Highest growth outlook among peers

GDP growth (%)



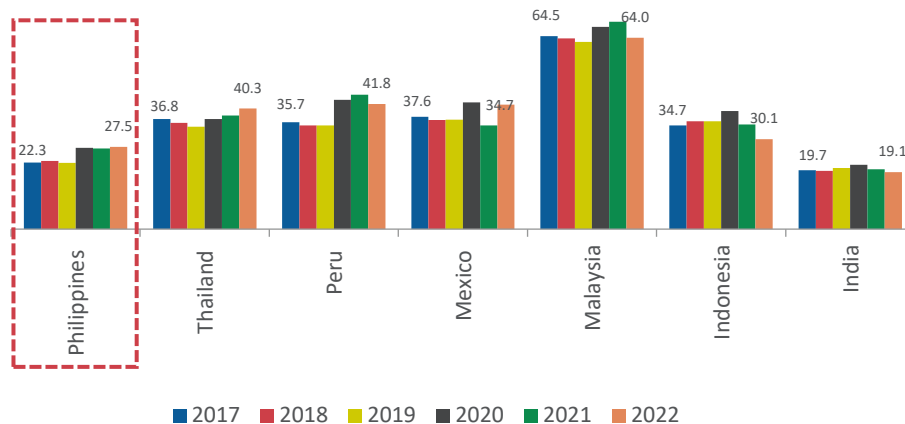
#### Debt burden remains manageable

General Government gross debt (% of GDP)



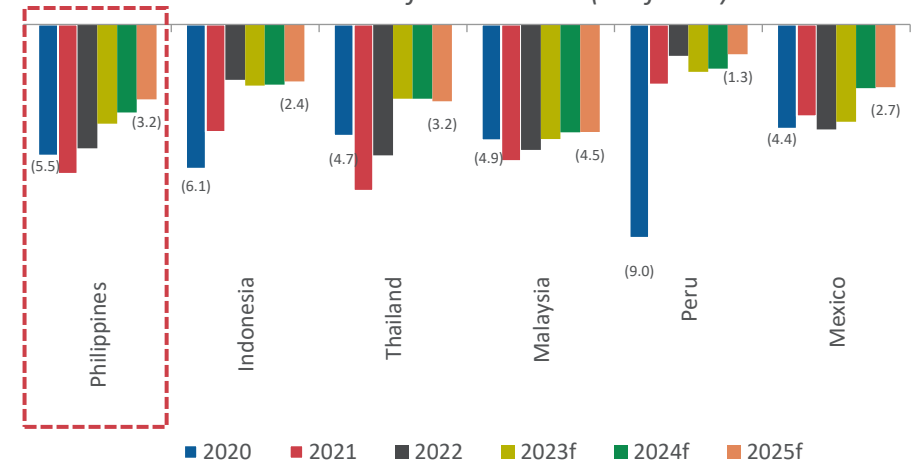
#### Low external debt

External Debt (% of GDP)



#### Sound fiscal position post pandemic

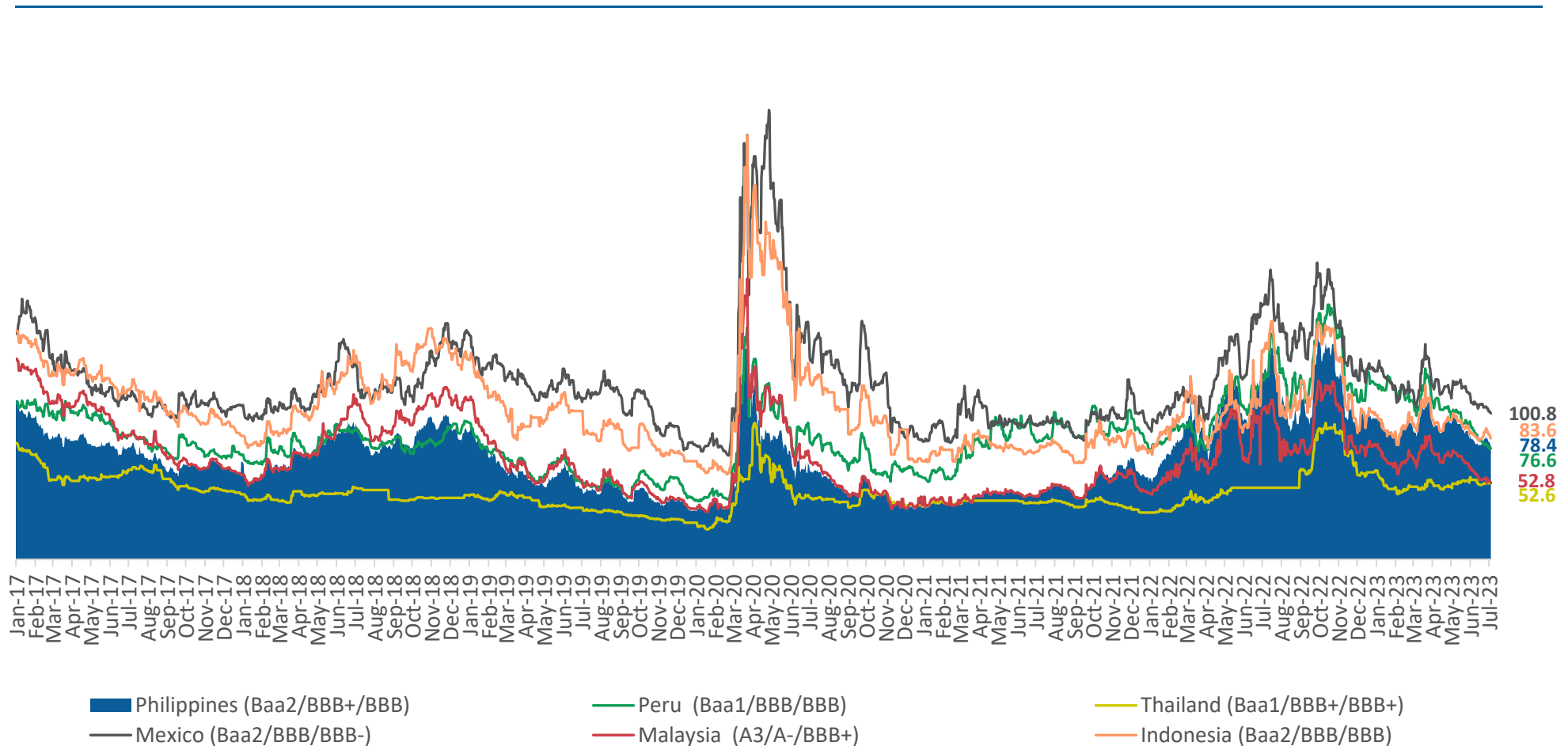
General Government fiscal balance (% of GDP)



## II. Sound Credit Profile Underpinned Swift Economic Recovery

### Investor Confidence in the Philippines' Sound Credit Quality

5-year Sovereign CDS spreads (in basis points)<sup>1/</sup>

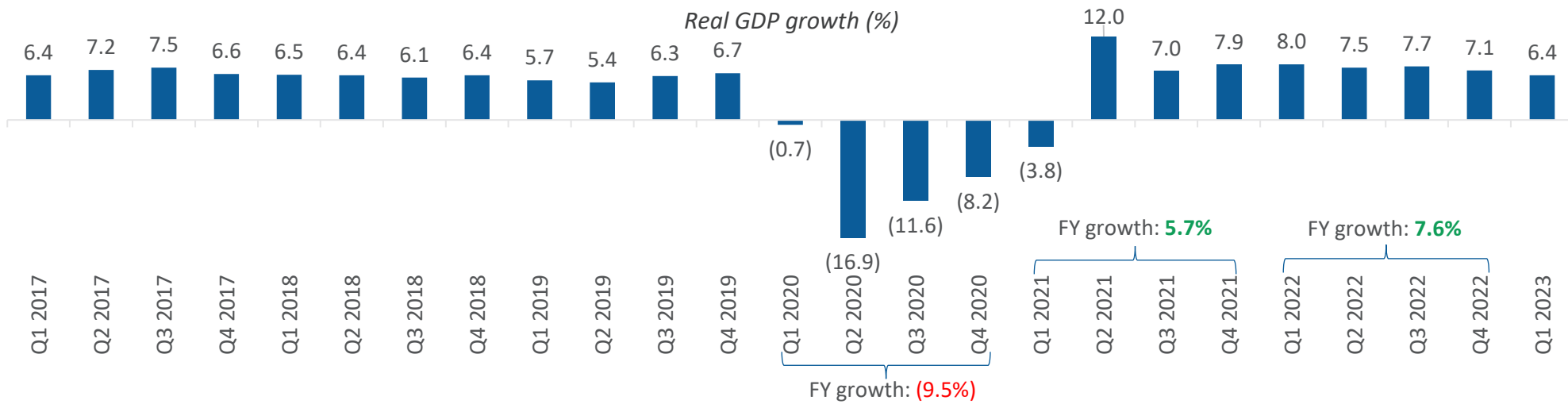


<sup>1/</sup> Data as of 4 July 2023  
 Rating: Moody's/S&P/Fitch ratings  
 Source: Bloomberg

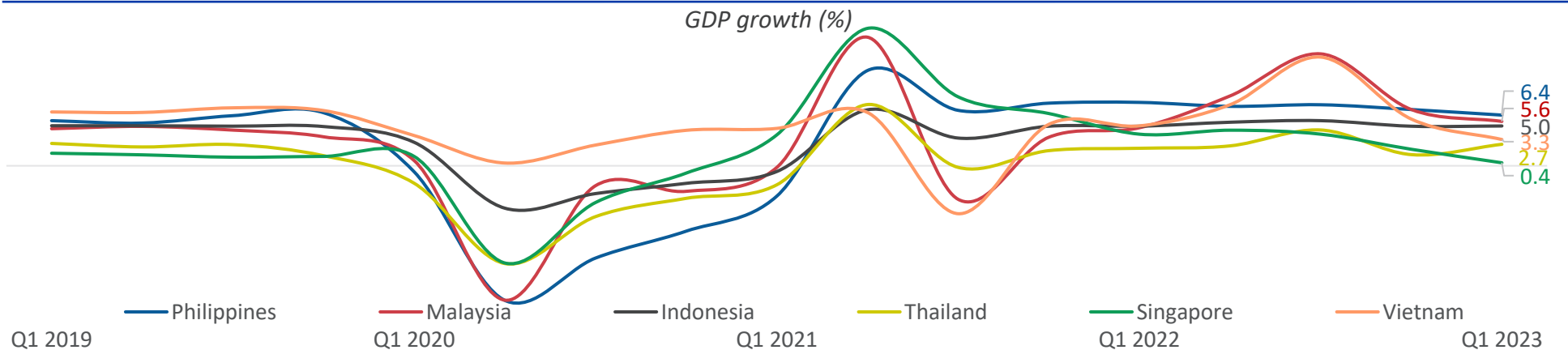
### III. Strong Economic Recovery and Reform Momentum

## Sustained Path to Stronger Economic Growth

Roadmap for robust growth anchored on sound macroeconomic fundamentals



## Philippines is the fastest growing economy in Southeast Asia



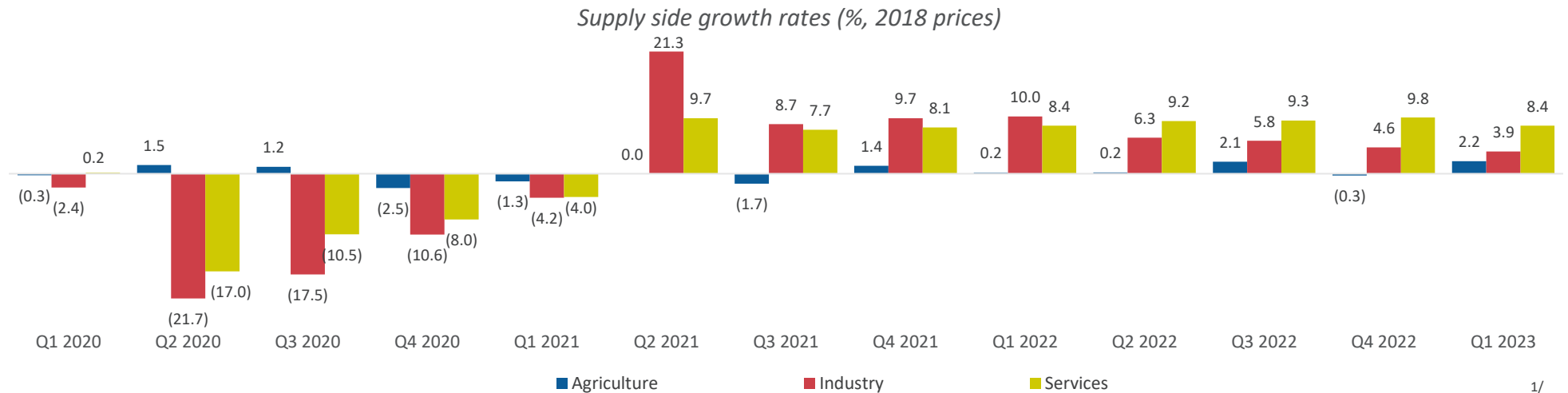
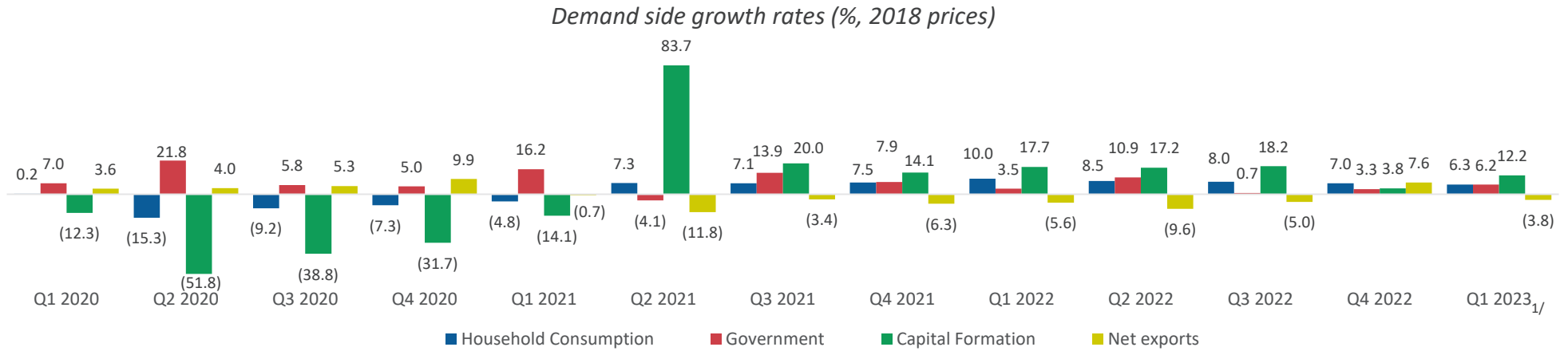
1/Preliminary data as of 26 January 2023  
 Source: Philippine Statistics Authority (PSA), National Economic and Development Authority (NEDA), Bloomberg  
 Note: GDP figures use 2018 as base year



### III. Strong Economic Recovery and Reform Momentum

## Strong Growth of Major Economic Sectors

Growth reflects robust domestic demand supported by improved labor market, tourism as well as investments



- Easing alert level and tourism restrictions and accelerated vaccine rollout helped jump start the recovery starting Q2 2021.

<sup>1/</sup>Preliminary data as of 11 May 2023

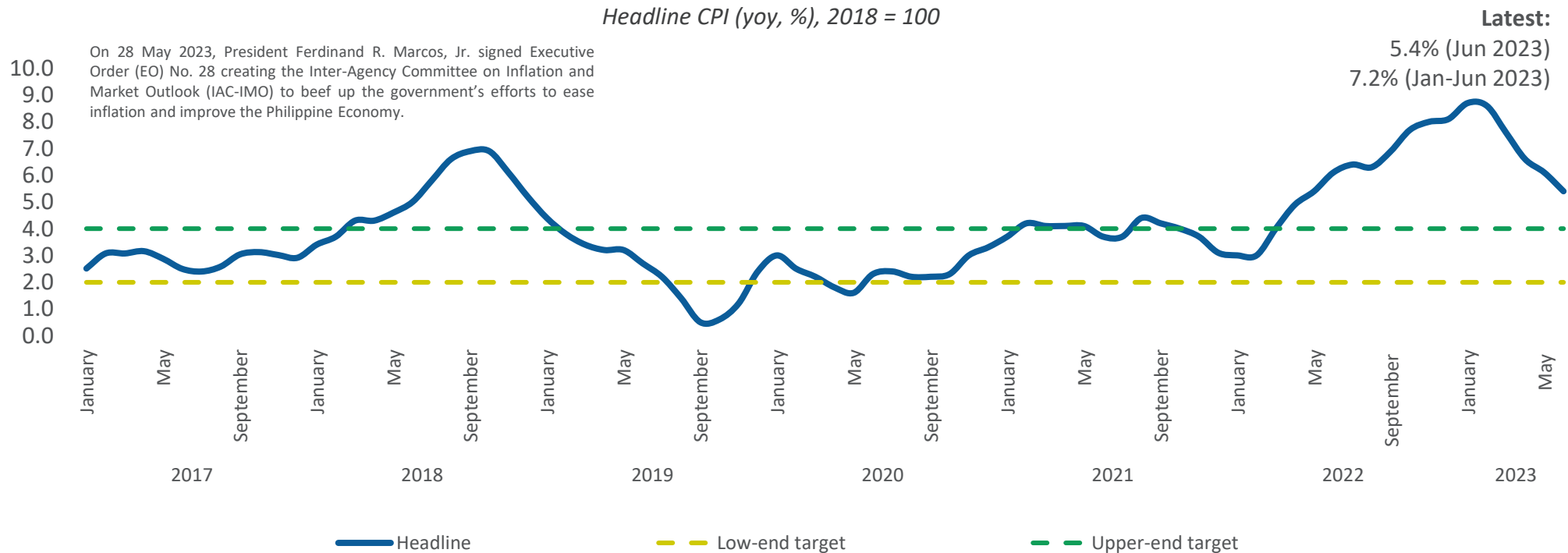
Sources: NEDA, PSA

Note: Numbers may not add up due to rounding; PSA Adopted Supply and Use Tables (SUT) in the compilation process to attain zero SD for the annual estimates and 1% or less for the quarterly estimates

### III. Strong Economic Recovery and Reform Momentum

## Bringing Inflation to a Target-Consistent Path

### Manageable inflation environment



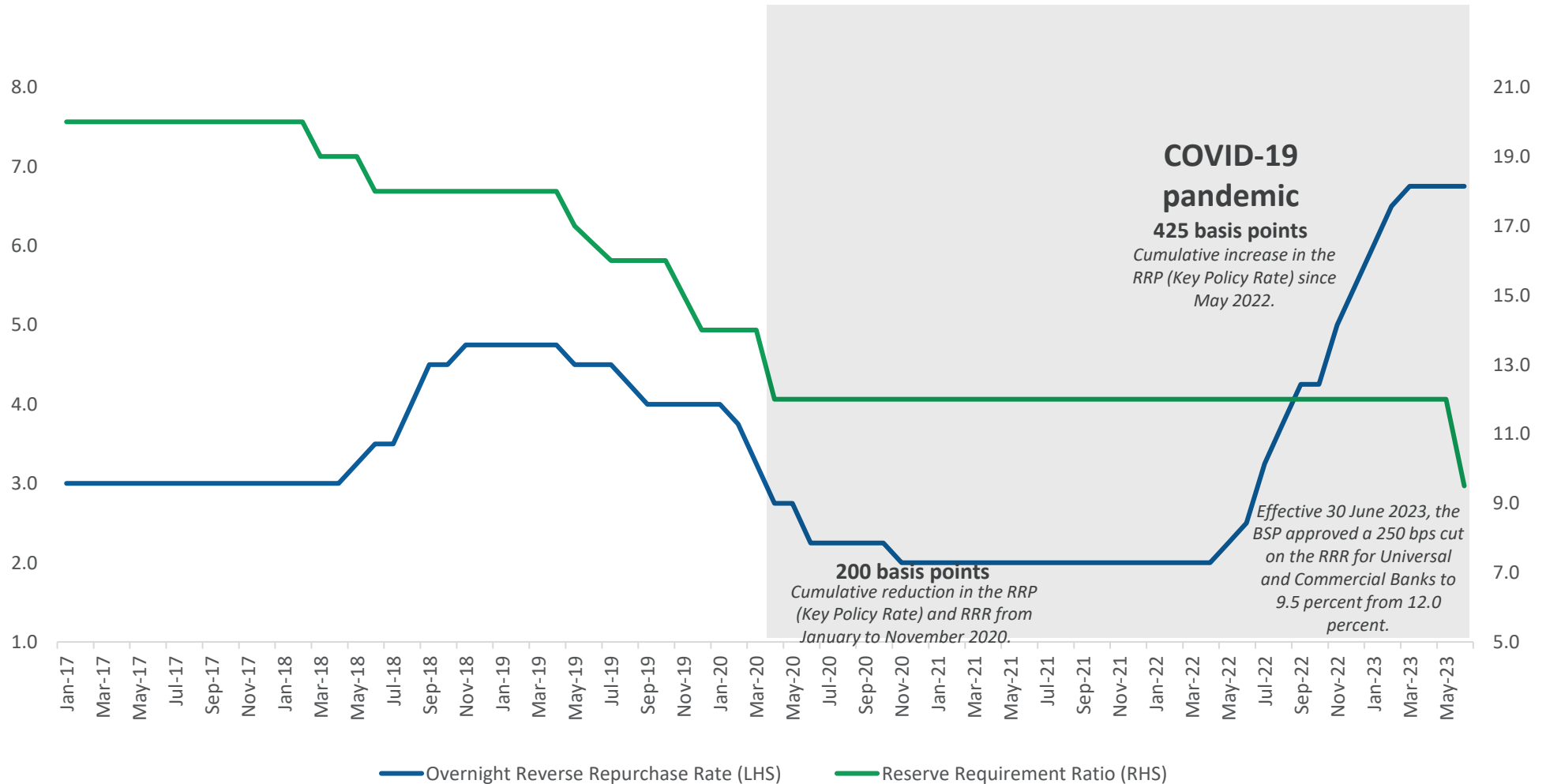
- Headline inflation averaged 5.8% in 2022. Inflation decelerated further to 5.4% in June 2023 from 6.1% in May of the same year. Year-to-date, inflation averaged 7.2%, which is still above the Government's average inflation target range of 2.0-4.0% for the year.
- The sustained decline in inflation reaffirms the BSP's assessment that inflation will return to within the target range by Q4 2023 in the absence of further supply shocks. Nonetheless, the BSP will continue to closely monitor evolving conditions. The BSP is prepared to resume monetary policy tightening as needed in keeping with its price stability mandate.

Note: Starting 2022, the Philippine Statistics Authority (PSA) adjusted the base year from 2012 to 2018, reflecting the changing household consumption patterns of Filipinos.

### III. Strong Economic Recovery and Reform Momentum

## Prioritize Restoring Price Stability and Adjust Monetary Policy Settings as Needed

Overnight Reverse Repurchase Rate vis-à-vis Reserve Requirement Ratio (%)



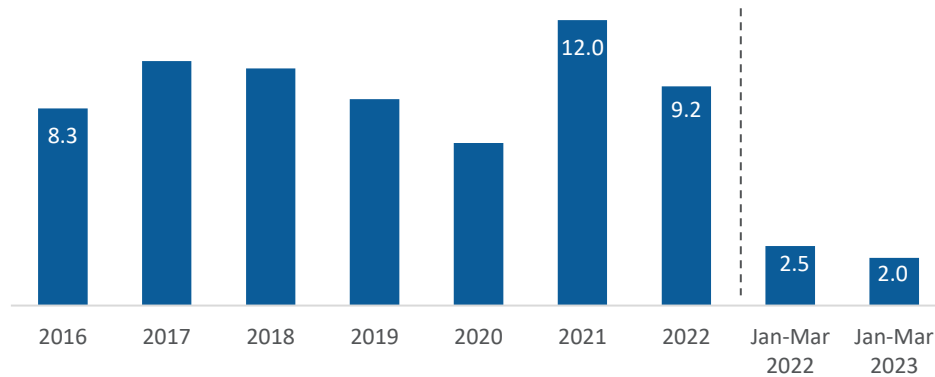
Source: BSP

### III. Strong Economic Recovery and Reform Momentum

## Favorable Prospects for Sustained Investment Flows

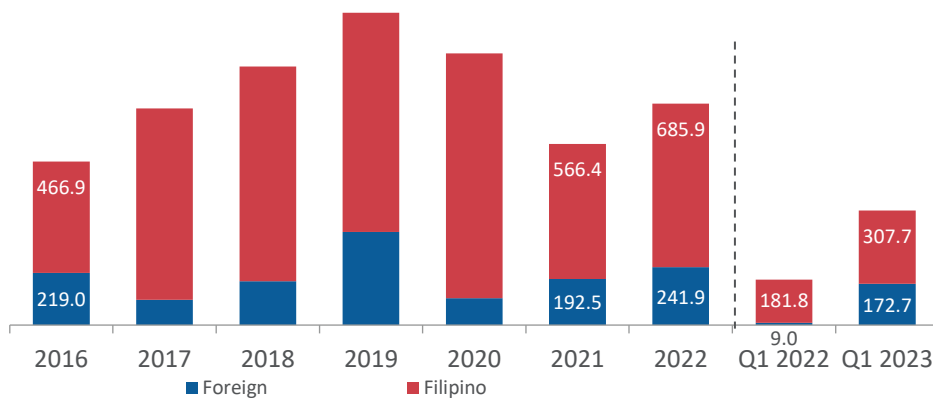
Continued inflows indicative of confidence in long-term growth prospects

Net FDI (US\$ bn)



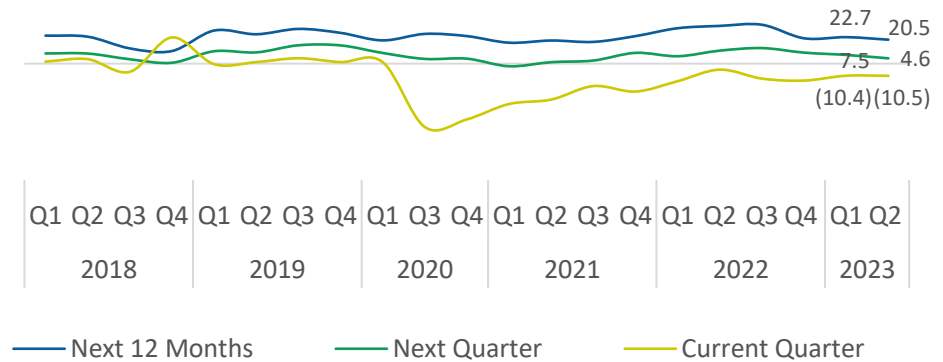
Foreign investment pledges in Q1 2023 increase twenty-fold vs Q1 2022

(PHP bn)

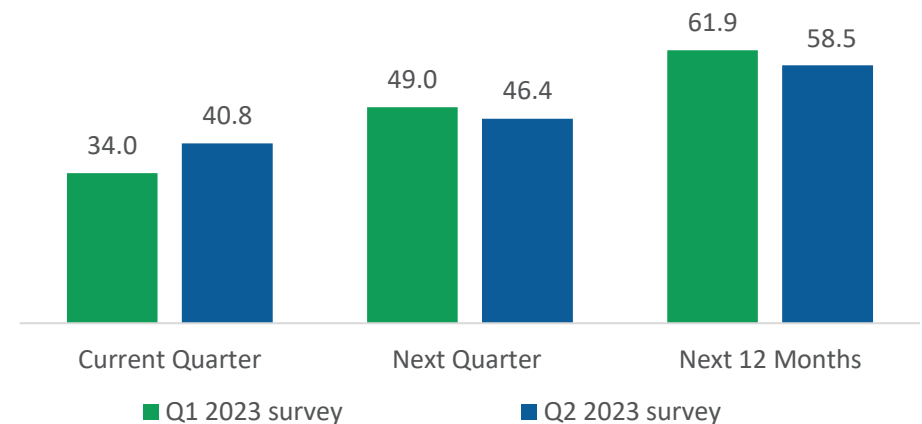


Investment approved by the Philippines' Investment Promotion Agencies – Board of Investments (BOI), Clark Development Corporation (CDC), Philippine Economic Zone Authority (PEZA), Subic Bay Metropolitan Authority (SBMA), Authority of the Freeport Area of Bataan (AFAB), BOI-Autonomous Region of Muslim Mindanao (BOI-ARMM), and Cagayan Economic Zone Authority (CEZA)  
Source: BSP, PSA

Consumer confidence remains pessimistic for the current quarter but remains optimistic for the next quarters \*



Businesses are more upbeat\*



Note:

\*Due to the implementation of the Community Quarantine nationwide from 16 March to 31 May 2020, the conduct of the Q2 2020 BES and CES was cancelled.

### III. Strong Economic Recovery and Reform Momentum

## Removing Barriers to Foreign Investments

### Economic Liberalization Reforms: Amendments to Foreign Investment Act (RA No. 11647)

#### Key Amendment:

Foreign investors can have 100% ownership of micro and small domestic enterprises with a paid-in equity capital of at least US\$100,000 but not equal to or more than US\$200,000, provided that:

*Investment involves advanced technology as certified by the Department of Science and Technology (DOST); or*



*Investment on startups or startup enablers as certified by the Department of Information and Communications Technology (DICT) or DTI or DOST; or*



*Investment where majority of the direct employees are Filipinos and that the number of Filipino direct hires is at least fifteen (15) as certified by the Department of Labor and Employment (DOLE)*



#### Other salient provisions:

Allow for more foreign participation in the country's industries\*

*Creation of the Inter-Agency Investment Promotion Coordination Committee tasked to integrate all promotion and facilitation efforts to encourage foreign investments in the country*

*Crafting of comprehensive and strategic Foreign Investment Promotion and Marketing Plan for the medium and long term*

*Establishing an updated database tool to promote investment and business matching in the local supply chain*

*Understudy or Skills Development Program designed to transfer technology or skills by designating at least two (2) understudies per foreign national employed*

\*unless participation is prohibited or limited by the Constitution and existing laws or the 12<sup>th</sup> Foreign Investment Negative List  
Source: Official Gazette

### III. Strong Economic Recovery and Reform Momentum

## Liberalized Economic Sectors Offer Greater Opportunities to Foreign Equity

### Amendments to Public Service Act (RA No. 11659) and Retail Trade Liberalization Law (RA No. 11595)

#### Amended Public Service Act

Allows up to 100% foreign ownership of public services such as:



Telecommunications



Airports



Railways



Shipping



Expressways

List of public utilities in which foreign equity participation is allowed up to 40%:



Distribution of electricity



Transmission of electricity



Petroleum and petroleum products pipeline transmission or distribution systems



Water pipeline distribution systems and wastewater pipeline systems



Seaports



Public utility vehicles

Source: NEDA, Official Gazette

#### Amended Retail Trade Liberalization Law

Allows for more foreign players in the retail market by lowering minimum paid-up capital for foreign corporations from US\$2.5mn (PHP125mn) to US\$500,000 (PHP25mn) and removing the required net worth, number of retailing branches, and retailing track record conditions

Helps small manufacturers by providing Philippine goods and services access to global stores



Designation of a store space as Filipino section

Utilization of locally-sourced raw materials in the production of goods



Implementation of other arrangements that will promote locally-manufactured products

Use of locally-made packaging materials such as bags, boxes, or containers



### III. Strong Economic Recovery and Reform Momentum

## Modernizing Industries and Expanding Growth to the Regions

### Strategic Investment Priority Plan (Approved in 2022)

#### Progression of Incentives Based on Industry Tiers

| Tier I  | Location   | Incentives for Exporters   | Incentives for Domestic Market |
|---|--|--|--------------------------------|
| <b>Activities listed in the 2020 Investment Priorities Plan</b> <ul style="list-style-type: none"> <li>• All qualified manufacturing activities</li> <li>• Innovation drivers</li> <li>• Infrastructure and logistics</li> <li>• Inclusive business models</li> <li>• Renewable energy, among others</li> </ul> | National Capital Region (NCR)                              | 4 years of Income Tax Holiday (ITH), 10 years of Enhanced Deductions (ED)/ Special Corporate Income Tax (SCIT) | 4 years of ITH, 5 years of ED  |
|   | Metropolitan areas or areas contiguous and adjacent to NCR | 5 years of ITH, 10 years of ED/SCIT  | 5 years of ITH, 5 years of ED  |
|   | All other areas  | 6 years of ITH, 10 years of ED/SCIT  | 6 years of ITH, 5 years of ED  |

| Tier II  | Location   | Incentives for Exporters            | Incentives for Domestic Market |
|--|--|-------------------------------------|--------------------------------|
| <b>Envisioned to promote a competitive and resilient economy and fill in gaps in the Philippines' industrial value chains</b> <ul style="list-style-type: none"> <li>• Green ecosystems</li> <li>• Health-related activities</li> <li>• Defense-related activities</li> <li>• Industrial value-chain gaps</li> <li>• Food security-related activities</li> </ul> | NCR  | 5 years of ITH, 10 years of ED/SCIT | 5 years of ITH, 5 years of ED  |
|  | Metropolitan areas or areas contiguous and adjacent to NCR | 6 years of ITH, 10 years of ED/SCIT | 6 years of ITH, 5 years of ED  |
|  | All other areas  | 7 years of ITH, 10 years of ED/SCIT | 7 years of ITH, 5 years of ED  |

| Tier III  | Location   | Incentives for Exporters            | Incentives for Domestic Market |
|---|--|-------------------------------------|--------------------------------|
| <b>Expected to accelerate the transformation of the economy primarily through the application of research and development and attracting technology investments</b> <ul style="list-style-type: none"> <li>• Research and development activities adopting advance digital production technologies of the fourth industrial revolution</li> <li>• Highly-technical manufacturing and production of innovative products and services</li> <li>• Establishment of innovation support facilities</li> </ul> | NCR  | 6 years of ITH, 10 years of ED/SCIT | 6 years of ITH, 5 years of ED  |
|   | Metropolitan areas or areas contiguous and adjacent to NCR | 7 years of ITH, 10 years of ED/SCIT | 7 years of ITH, 5 years of ED  |
|   | All other areas  | 7 years of ITH, 10 years of ED/SCIT | 7 years of ITH, 5 years of ED  |

Source: Board of Investment

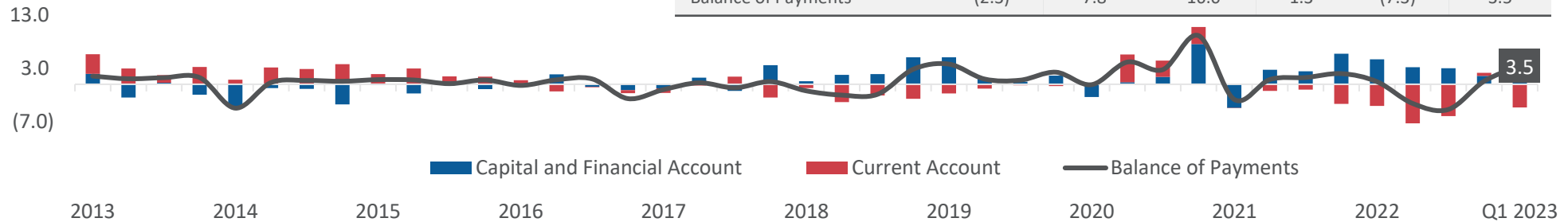
## IV. Robust External Accounts

### Manageable Balance of Payments Position

#### Balance of Payments

Balance of Payments Components (US\$ bn)

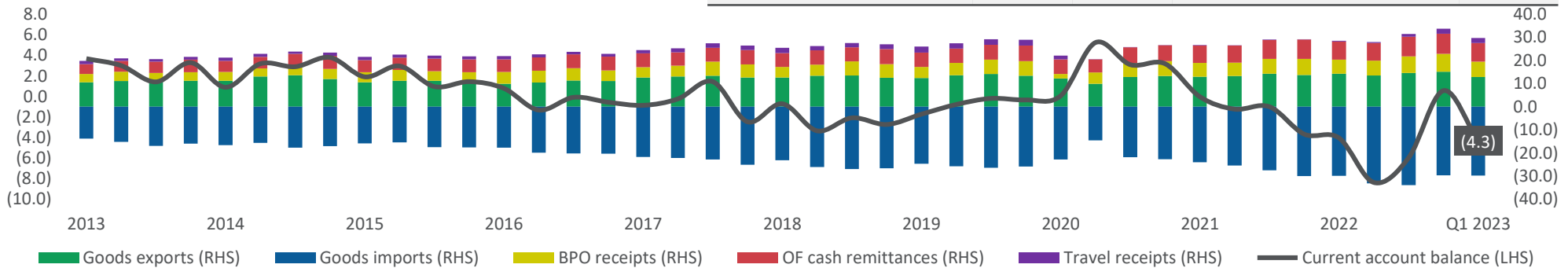
|                               | 2018  | 2019  | 2020 | 2021  | 2022   | Q1 2023 |
|-------------------------------|-------|-------|------|-------|--------|---------|
| Capital and Financial Account | 9.4   | 8.2   | 7.0  | 6.5   | 12.6   | 5.7     |
| Current Account               | (8.9) | (3.0) | 11.6 | (5.9) | (17.8) | (4.3)   |
| Balance of Payments           | (2.3) | 7.8   | 16.0 | 1.3   | (7.3)  | 3.5     |



#### Current Account

Current account components (US\$ bn)

|                          | 2018  | 2019  | 2020 | 2021  | 2022  | Q1 2023 |
|--------------------------|-------|-------|------|-------|-------|---------|
| Current Account /GDP (%) | (2.6) | (0.8) | 3.2  | (1.5) | (4.4) | (4.3)   |



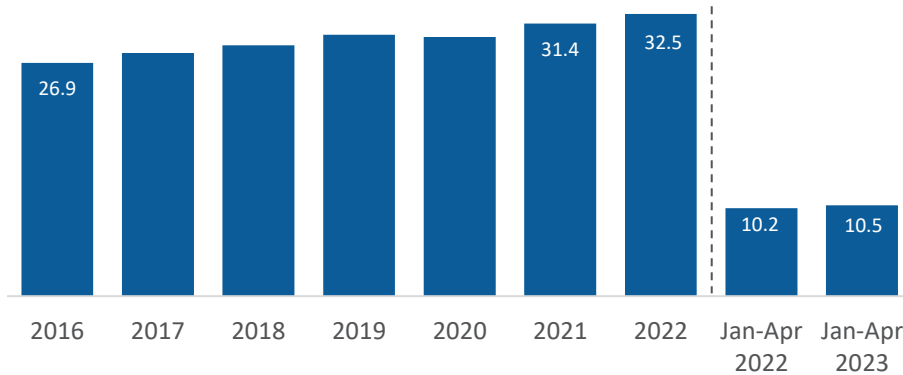


## IV. Robust External Accounts

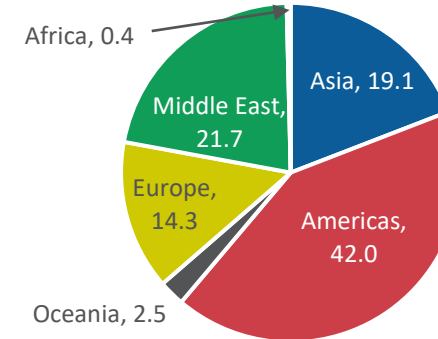
# Structural Current Account Inflows that Support the Balance of Payments

### Remittance flows resilient amid the pandemic

OFs' cash remittances



OFs' cash remittances by source 2012- 2022 average (% share to total)



Note: Remittances through correspondent banks are mostly located in the U.S. On the other hand, remittances coursed through money couriers cannot be disaggregated into their actual country source and are lodged under the country where the main offices are located, which, in many cases are in the U.S.

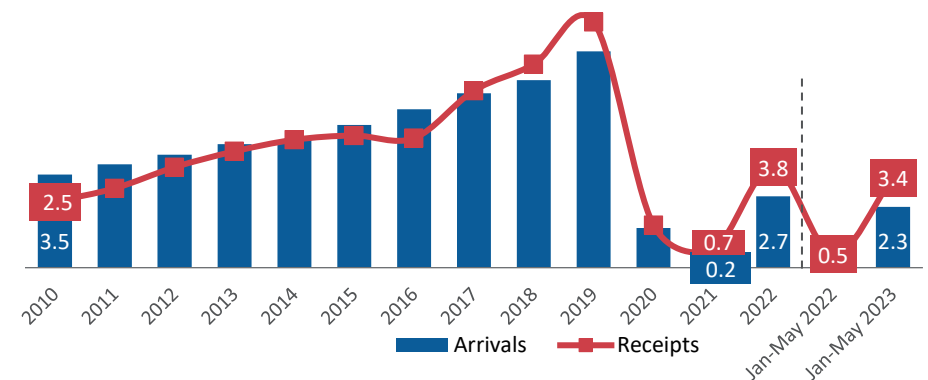
### BPO remains a strong driver of employment, export revenues

BPO employment ('000s) and export revenues (US\$ bn)



### Tourism industry posts strong rebound post pandemic

International visitor receipts (US\$ bn) and arrivals (mn)



Note: BPO revenues are lodged under technical, trade-related, and other business services and computer services (BOP concept); BPO employment data is from IT and Business Process Association of the Philippines (IBPAP)

Source: BSP and DOT

Sources: BSP, Department of Tourism (DOT), IBPAP

## IV. Robust External Accounts

### Adequate Buffers Against External Headwinds

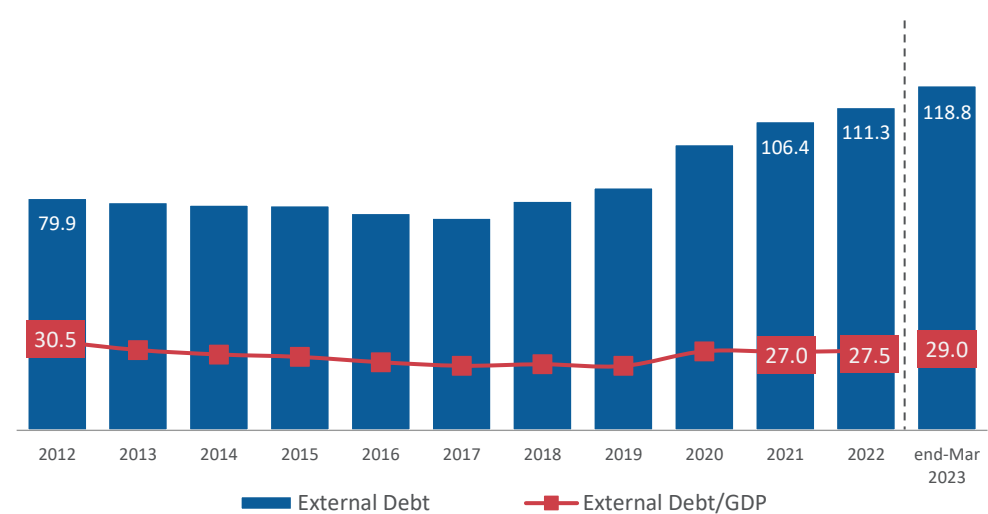
#### Hefty level of reserves

International reserves (US\$ bn) and months of import cover



#### Low external debt/GDP ratio

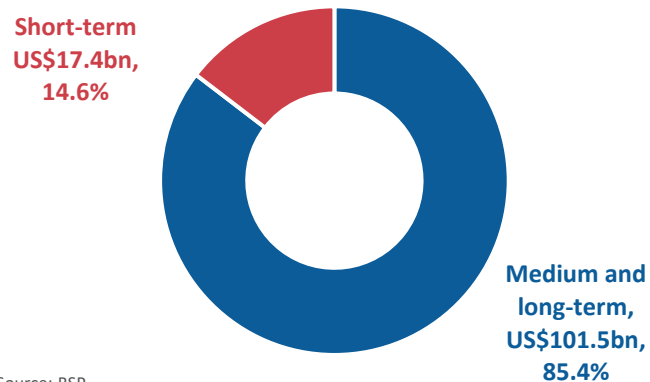
External debt (US\$ bn) and external debt/GDP (%)



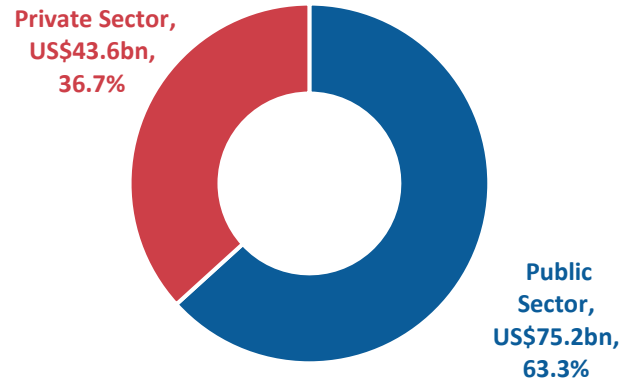
#### Favorable external debt profile

(as of end-March 2023)

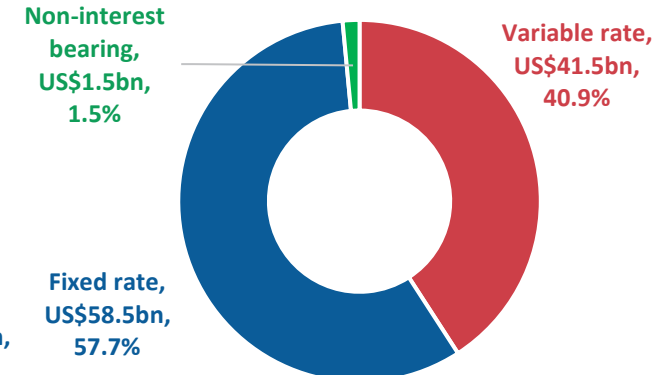
##### External Debt by Maturity



##### External debt by borrower



##### External debt by interest type



## IV. Robust External Accounts

# Opportunities for Regional Trade, Investment to Support External Accounts

### Philippines: A strategic point of access to key markets



*Critical entry point to over 600mn people in the ASEAN Market*

*Natural gateway to the East-Asian economies*

*Placed at the crossroads of international shipping and airlines*

*Reachable within 3-4 hours by plane within most countries in Asia*

### Philippines' Foreign Trade Agreements (FTA)



**US:** 70% of Philippines exports enter US duty free under the US' Generalized System of Preferences (GSP)



**EU:** duty-free access for 6,274 tariff lines under GSP+ Program; the Philippines is the only ASEAN country with GSP+



**ASEAN Free Trade Area** comprised of Brunei Darussalam, Laos, Indonesia, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam has lower intra-regional tariffs of 0-5%



**ASEAN Partners:** China, South Korea, Japan, India, Australia-New Zealand, and Hong Kong



**European Free Trade Association (EFTA):** Switzerland, Norway, Iceland, and Liechtenstein

### Regional Comprehensive Economic Partnership (RCEP)

*Ratified by the Philippines on 21 February 2023 and entered into force on 02 June 2023*

*Philippine Institute for Development Studies (PIDS) research found that Philippines and Vietnam are the top gainers of RCEP deal*

*RCEP is expected to open markets for 92% of Philippines' products*

*Improves export competitiveness of the Philippines' key products of interests, such as agricultural products, automotive parts, and garments*

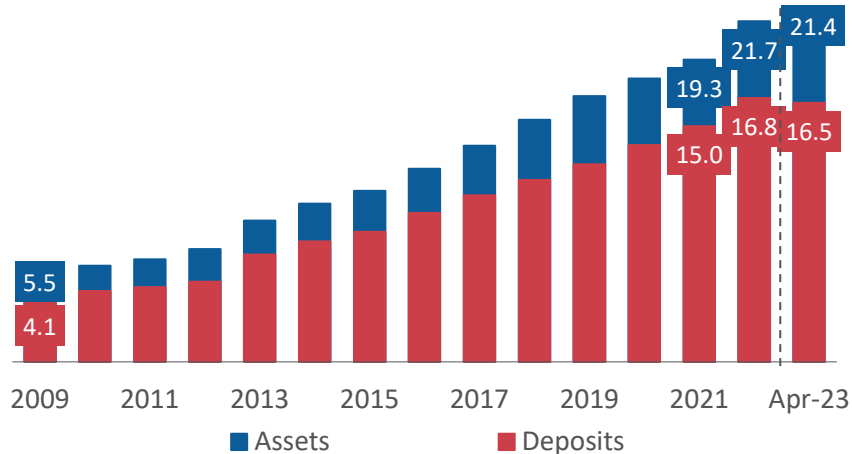
*Improves levels of market access; provides a specific chapter for MSMEs; includes simplified and business friendly customs procedure for trade; enhanced cooperation on e-commerce*

*Provides a platform to encourage more investments and service providers in vital sectors such as manufacturing, creative sectors, financial services, research and development, IT-BPO, and energy, among others*

# V. Stable and Resilient Banking System

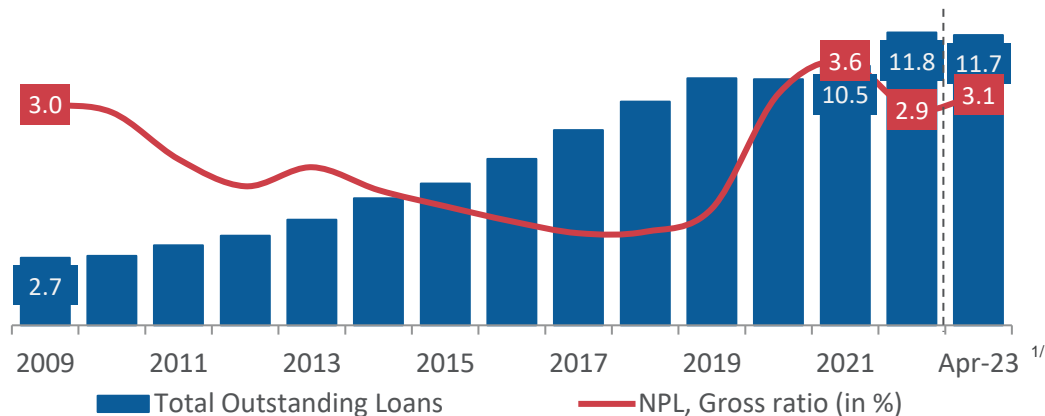
## Strong asset expansion is supportive of recovering loan demand

Total asset and deposit levels (PHP tn) of U/KBs



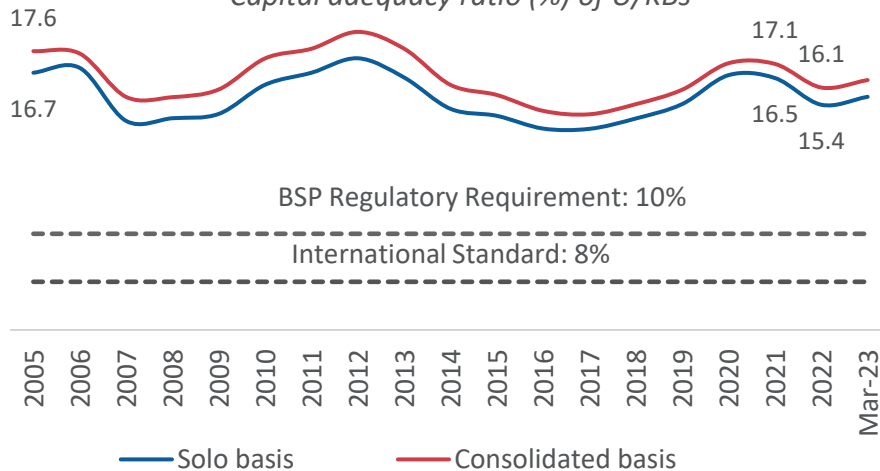
## Improving loan demand and paying capacity amid labor market expansion

Total loans outstanding, gross of BSP RRP agreements (PHP tn) and non-performing loans (NPL) ratio (%) of U/KBs



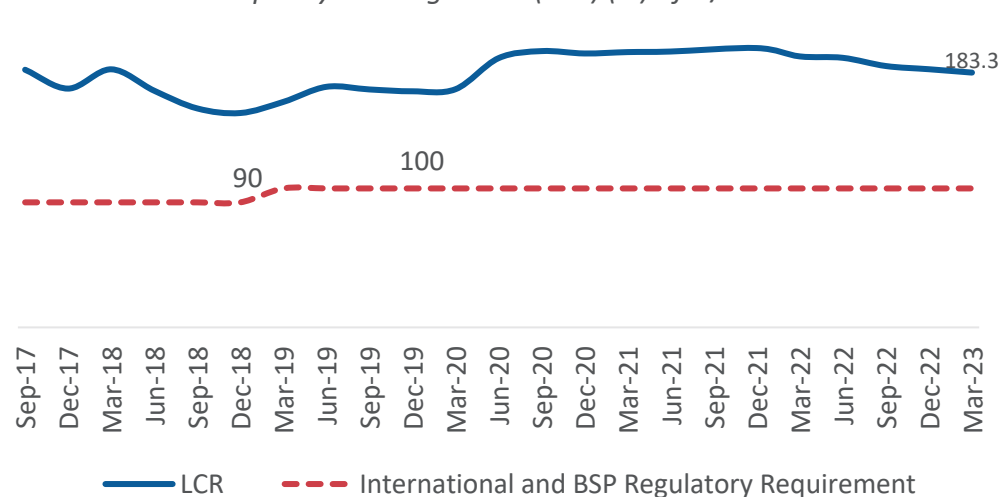
## Strong capitalization well above international norms

Capital adequacy ratio (%) of U/KBs



## Strong liquidity position to fund requirements during shocks

Liquidity coverage ratio (LCR) (%) of U/KBs



1/ Preliminary data  
Source: BSP  
Note: U/KBs – Universal and Commercial Bank

# V. Stable and Resilient Banking System

## Digital Payments Transformation Roadmap 2020-2023 to shift from a cash-heavy to a cash-lite economy

### Goals, objectives, policy initiatives



### Roadmap anchored on 3 Pillars for the development of the Next Generation Payment Settlement System

| Digital Payments Streams   | Digital Finance Infrastructure  | Digital Governance Standards   |
|--|---|--|
| <ul style="list-style-type: none"> <li>Catalyze broader adoption of digital payments among consumers and businesses</li> <li>QR Ph, Paleng-QR Ph, E-Gov Facility (P2G, B2G), Bills Pay, Request to Pay, Direct Debit Facilities</li> </ul> | <ul style="list-style-type: none"> <li>Enhance key infrastructure that support the expansion of an inclusive, digital payments ecosystem</li> <li>National ID System – PhilSys, PhilPaSS, Open banking</li> </ul> | <ul style="list-style-type: none"> <li>Promote responsible digital innovations</li> <li>Open Banking and Application Programming Interfaces Standards, Adoption of ISO 20022 Standards, Cybersecurity Policies and Measures, Use of Data Policy</li> </ul> |

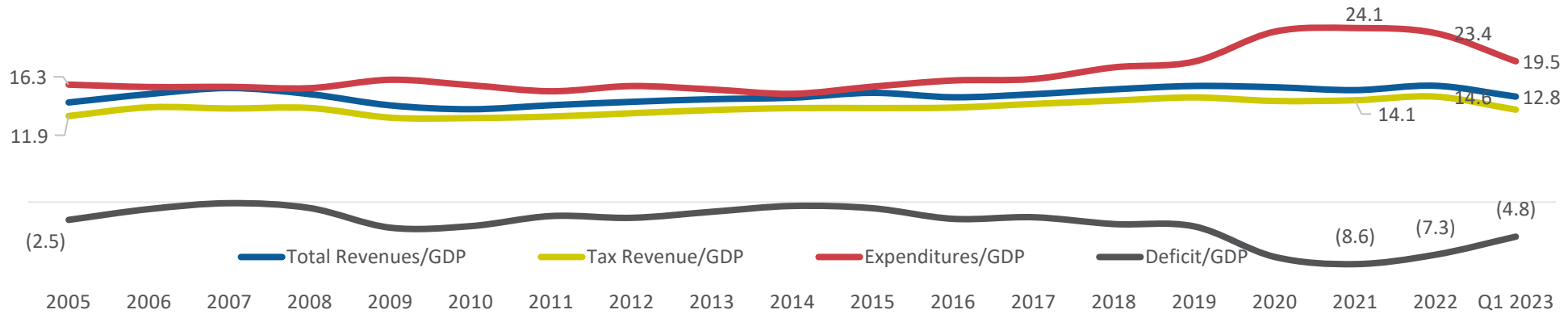
### Regulatory approach

- Registration and licensing framework of digital banks and virtual asset service providers. Approval of six (6) digital banks will promote market efficiency and expand a broad range of financial services to accelerate financial digitalization
- Adoption of Payment System Oversight Framework (PSOF) as the second leg of the National Payment Systems Act (NPSA)
- Consumer protection and digital literacy

## VI. Sound Government Finances

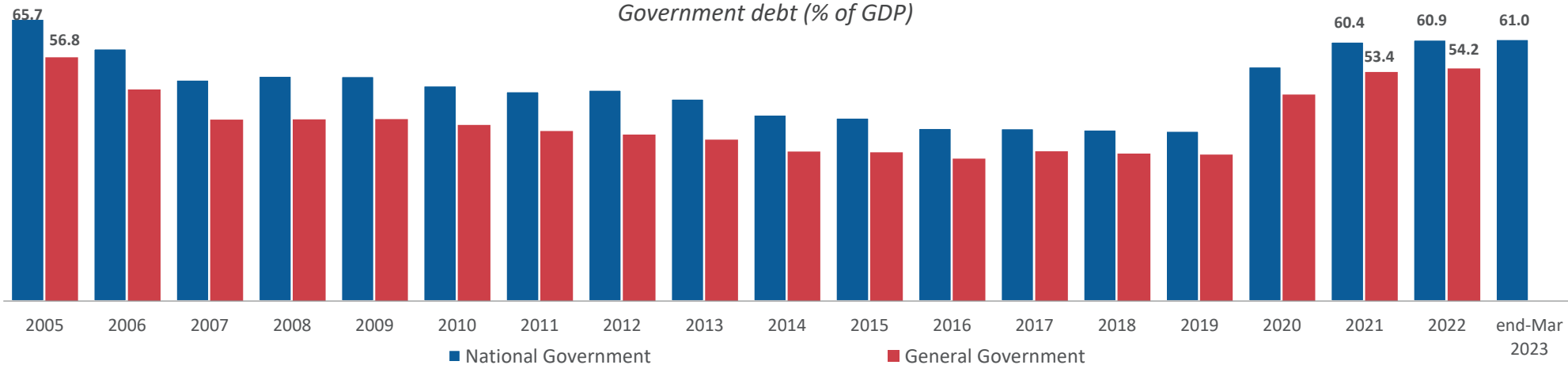
### Long history of prudent fiscal management strengthened government's financial position

National Government (NG) Expenditure, Revenue, Tax Revenue, and Deficit (% of GDP)



### Debt remains manageable, fiscally viable through prudent and strategic debt management

Government debt (% of GDP)



Sources: DOF, Bureau of the Treasury

## VI. Sound Government Finances

Enhanced tax collection efficiency due to implementation of comprehensive tax and administration reforms are pillar for recovery

| Particulars               | Actual         | Actual           | Program          | Actual           | Actual           | Program          | Actual         | Projection       |
|---------------------------|----------------|------------------|------------------|------------------|------------------|------------------|----------------|------------------|
|                           | 2019           | 2020             | 2021             | 2021             | 2022             | 2023             | Jan-May 2023   | 2024             |
|                           | PHP bn         |                  |                  |                  |                  |                  |                |                  |
| <b>Revenues</b>           | <b>3,137.5</b> | <b>2,856.0</b>   | <b>2,881.5</b>   | <b>3,005.5</b>   | <b>3,545.5</b>   | <b>3,729.0</b>   | <b>1,592.8</b> | <b>4,201.4</b>   |
| <i>% of GDP</i>           | 16.1           | 15.9             | 14.8             | 15.5             | 16.1             | 15.2             | 14.6 (Q1)      | 15.9             |
| Tax Revenues              | 2,827.8        | 2,504.4          | <b>2,714.8</b>   | 2,742.7          | 3,220.3          | 3,537.9          | 1,414.8        | NA               |
| <i>% of GDP</i>           | 14.5           | 14.0             | 13.9             | 14.1             | 14.6             | 14.4             | 12.8 (Q1)      | NA               |
| Non-tax Revenues          | 308.8          | 351.3            | <b>166.2</b>     | 262.5            | 324.1            | 191.1            | 178.0          | NA               |
| <i>% of GDP</i>           | 1.6            | 2.0              | 0.9              | 1.4              | 1.5              | 0.8              | 1.8 (Q1)       | NA               |
| <b>Expenditures</b>       | <b>3,797.7</b> | <b>4,227.4</b>   | <b>4,737.1</b>   | <b>4,675.6</b>   | <b>5,159.6</b>   | <b>5,228.4</b>   | <b>1,919.1</b> | <b>5,564.3</b>   |
| <i>% of GDP</i>           | 19.5           | 23.6             | 24.3             | 24.1             | 23.4             | 21.3             | 19.5 (Q1)      | 21.0             |
| <b>Surplus/(-Deficit)</b> | <b>(660.2)</b> | <b>(1,371.4)</b> | <b>(1,855.6)</b> | <b>(1,670.1)</b> | <b>(1,614.1)</b> | <b>(1,499.4)</b> | <b>(326.3)</b> | <b>(1,362.9)</b> |
| <i>% of GDP</i>           | (3.4)          | (7.6)            | (9.5)            | (8.6)            | (7.3)            | (6.1)            | (4.8) (Q1)     | (5.1)            |

- The fiscal program reflects gradual increase in revenue collections fueled by continued implementation of existing tax measures and tax administration reforms, bolstered by a robust economic growth. Deficit in 2022 was 7.3%, lower than the previous year's 8.6% and projected to decline further to 5.1% in 2024.
- The Philippines is expected to return to fiscal consolidation (i.e., to reduce deficit and debt stock accumulation) in the medium-term given its strong track record of revenue improvement and prudent expenditure management.

Source: DBM, BTR, DOF, Budget of Expenditures and Sources of Financing (BESF) 2023, DBCC approved Fiscal Program, 9 June 2023

TRAIN refers to Tax Reform for Acceleration and Inclusion Act

NA- not available

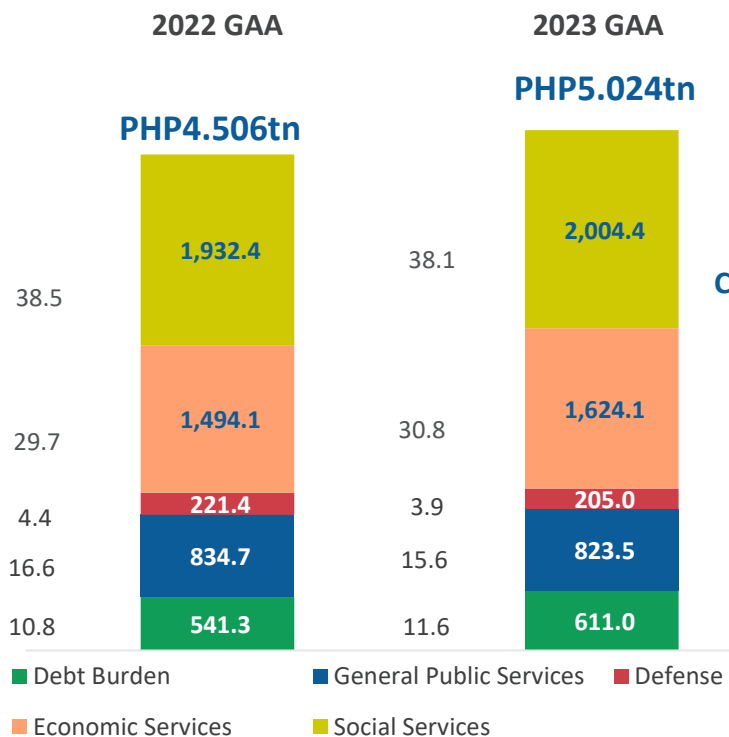
## VI. Sound Government Finances

# 2023 National Budget for Resiliency, Recovery, Infrastructure Development

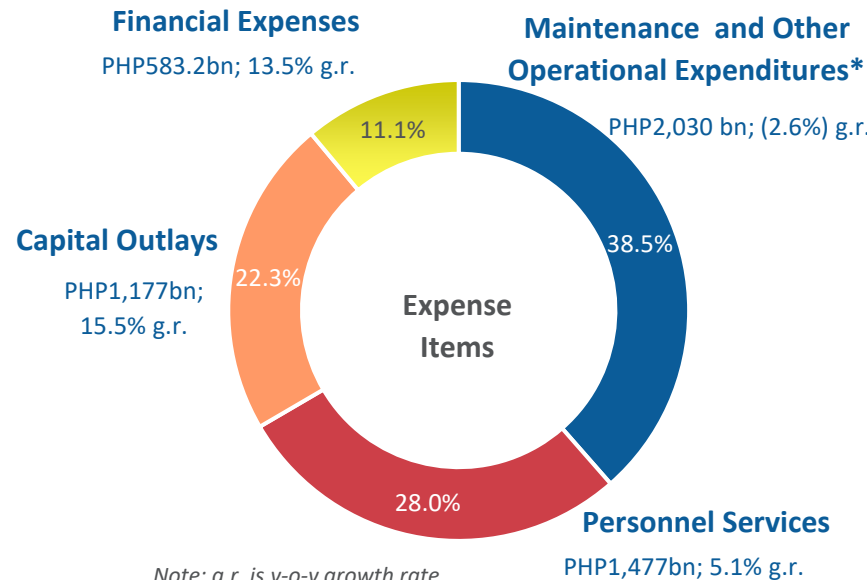
Theme: *Economic Transformation Towards Inclusivity and Sustainability*

- The 2023 budget (General Appropriations Act) amounts to PHP5.268tn, 4.9% higher than the 2022 budget and equivalent to 22.2% of GDP. Crafted in harmony with the 8-Point Socioeconomic Agenda, the budget will transform the national economy towards inclusivity and sustainability for a more prosperous Philippines.

2022 vs 2023 GAA by Sector, PHP bn and % share



2023 National Budget by Expense Class, PHP bn, % Share and growth rate (in %)



FY 2023 GAA Select Expenditure Priorities in PHP bn

|   |         |
|---|---------|
| Expand and Upgrade Infrastructure                             | 1,300.0 |
| Modernize Agriculture and Agribusiness & Ensure Food Security | 173.6   |
| Revitalize Industry   | 31.4    |
| Improve Education and Lifelong Learning                       | 896.1   |
| Boost Health  | 314.7   |
| Strengthen Social Protection                                  | 227.8   |
| Establish Digitalization                                      | 24.1    |
| Increase Income-Earning Ability                               | 63.1    |
| Accelerate Climate Action                                     | 464.0   |

Note: g.r. is y-o-y growth rate

Figures may not add up due to rounding off

\*Inclusive of National Tax Allotment, Special shares of LGUs in the proceeds of national taxes, Local Government Support Fund, Special shares in the proceeds of Fire Code fees, Barangay officials death benefits, Allocation for MMDA and Bangsamoro Autonomous Region in Muslim Mindanao



## VI. Sound Government Finances

## Strong Investor Confidence to ROP's Issuances Even During Tighter Global Financial Conditions

Highlights of Transaction<sup>a/</sup>

| Apr 2020   | Dec 2020  | Mar 2021  | Apr 2021   | Jun 2021  |
|--|---|---|--|---|
| <ul style="list-style-type: none"> <li>ROP as the first sovereign globally to price syndicated benchmark tranche with zero new issue premium during the COVID-19 crisis</li> <li>ROP's lowest yielding US\$ offerings; Largest offshore offering since 2010</li> <li>Sold a dual tranche US\$2.35bn bond consisting of US\$1.0bn 2.457% 10Y bond and US\$1.35bn 2.95% 25Y bond with spread of T+180bps and T+169bps, respectively</li> </ul> | <ul style="list-style-type: none"> <li>ROP successfully offered the largest bond historically and achieved the tightest yield for both ROP 10Y and 25Y bucket</li> <li>Sold a dual tranche comprised of US\$1.25bn 10.5Y notes priced at T+70bps (1.648%) and US\$1.5bn 25Y notes priced at 2.650%</li> </ul> | <ul style="list-style-type: none"> <li>ROP successfully returned to the Samurai market with JPY55bn first –ever zero-coupon bond transaction</li> <li>The 3Y Samurai tranche was priced at YSO+21bps above benchmark, the tightest spread since ROP's return to the market</li> </ul> | <ul style="list-style-type: none"> <li>ROP's largest and first triple-tranche euro offering</li> <li>The EUR2.1bn issuance was comprised of EUR650mn 0.250% 4Y bond, EUR650mn 1.200% 12Y bond, and EUR800mn 1.750% 20Y bond with spread of MS+75bps, MS+105bps, and MS+135bps, respectively</li> </ul> | <ul style="list-style-type: none"> <li>ROP issued a US\$3bn dual tranche global bonds comprised of US\$750mn 10.5Y notes priced at T+60bps (1.95%) and US\$2.25bn 25Y notes priced at 3.25% with a coupon of 3.20%</li> </ul> |

| Mar 2022   | Apr 2022  | Oct 2022   | Jan 2023   |
|--|---|--|--|
| <ul style="list-style-type: none"> <li>ROP successfully raised US\$2.25bn first triple tranche Global Bonds, including 25Y notes issued under the Sustainable Finance Framework and that marked the ROP's debut Environmental, Social and Governance (ESG) Global Bonds offering</li> <li>The global bonds issuance is comprised of US\$500mn 5Y notes priced at T+90bps (3.229%), US\$750mn 10.5Y notes priced at T+125bps (3.556%), and new US\$1bn 25Y sustainability bonds priced at T+50bps (4.200%)</li> </ul> | <ul style="list-style-type: none"> <li>ROP's first Sustainability samurai bond of JPY70.1bn multi-tranche offering with an ESG label across all four tranches</li> <li>Priced at 0.76% for 5Y (JPY52bn), 0.95% for 7Y (JPY5bn), 1.22% for 10Y (JPY7.1bn), and 1.83% for 20Y (JPY6bn), with a spread of YMS+60bps, YMS+70bps, YMS+85bps, and YMS+115bps, respectively</li> </ul> | <ul style="list-style-type: none"> <li>ROP successfully raised US\$2.0bn triple tranche Global Bonds under the new administration, including 25Y sustainability bonds</li> <li>The offering consisted of US\$500mn 5Y notes priced at T+120bps (5.170%), US\$750mn 10.5Y notes priced at T+185bps (5.609%), and new US\$750mn 25Y sustainability bonds priced at 6.100% with a coupon of 5.950%</li> </ul> | <ul style="list-style-type: none"> <li>ROP issued US\$3.0bn triple tranche Global Bonds, including a 25Y sustainability notes marking the Republic's fourth G3 ESG bond offering</li> <li>The issuance comprised US\$500mn 5.5Y bonds priced at T+105bps (4.625%), US\$1.25bn 10Y bonds priced at T+145bps (5.00%), and US\$1.25bn 25Y sustainability bonds priced at T+180.7bps with a coupon of 5.50%</li> </ul> |

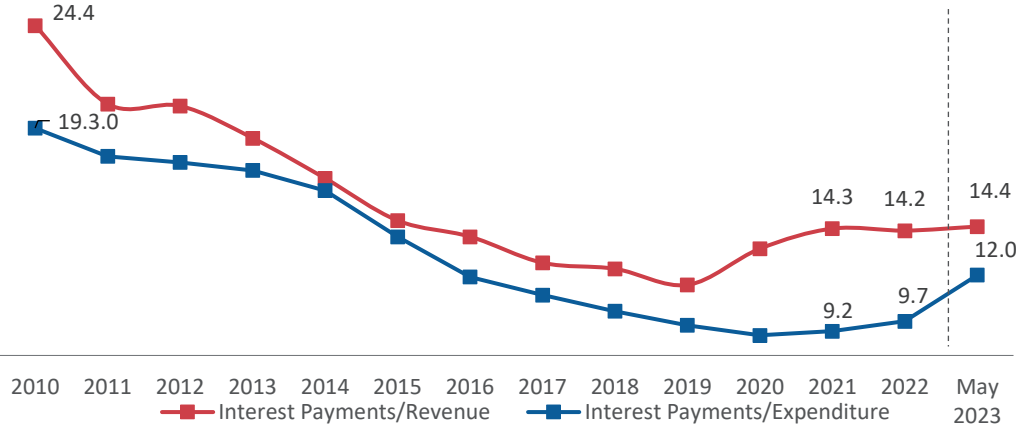
a/ At time of issuance  
Source: Bureau of the Treasury; Bloomberg L.P.

# VI. Sound Government Finances

## Sustainable Debt Profile Supported by Diversified Sources of Financing

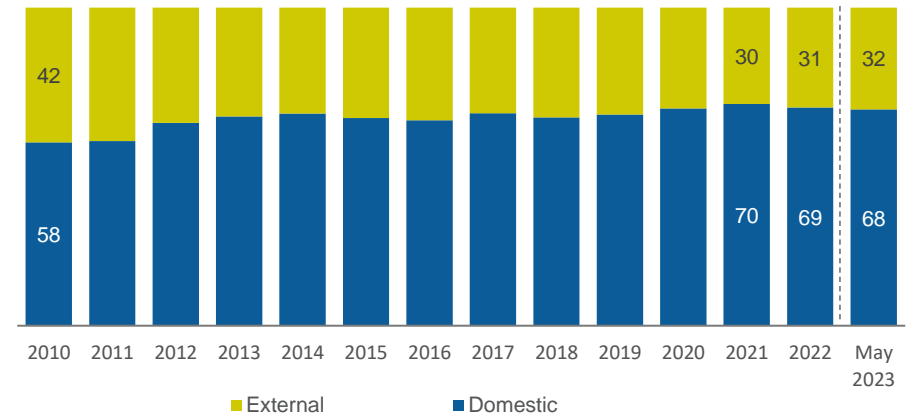
Improved debt affordability resulting from proactive and prudent debt management provides additional fiscal space

Interest payments / NG revenue (%) and Interest payments / NG expenditure (%)



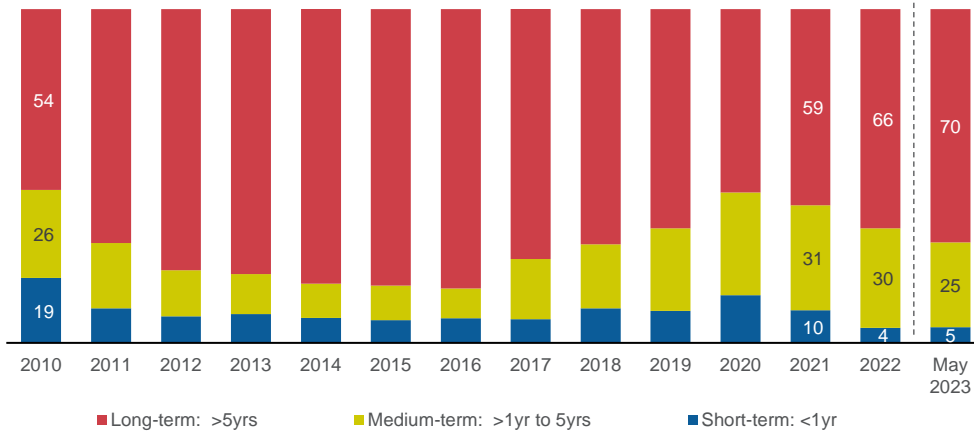
Ample domestic liquidity allows ROP to rely on domestic market to fund majority of its requirements while minimizing FX risks

Total debt breakdown (%)

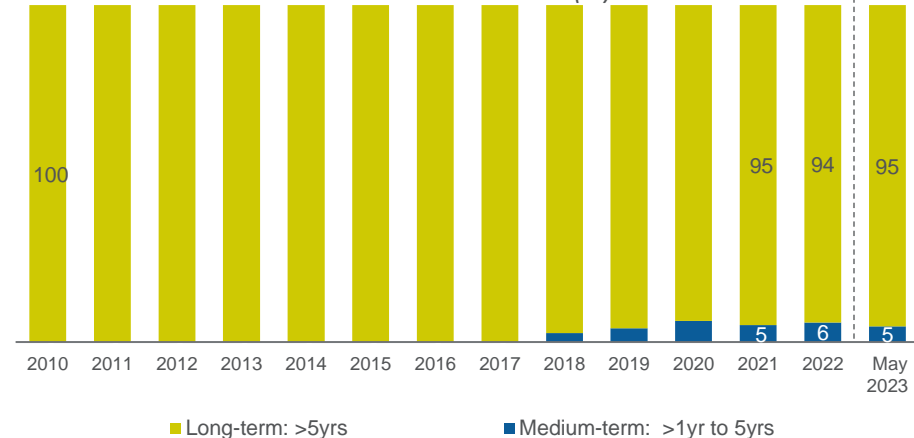


Long-dated debt profile reduces refinancing risk

Domestic debt breakdown (%)



External debt breakdown (%)



Unless otherwise indicated, debt charts pertain to National Government (NG) Outstanding debt data available as of end-January 2022  
Source: Bureau of the Treasury

## VI. Sound Government Finances

## Strong Bias for Domestic Sources of Financing to Minimize FX Risks

## Strategic Financing Program

| Particulars                                   | 2015          | 2016         | 2017         | 2018         | 2019           | 2020           | 2021 <sup>a/</sup> | 2022                        | 2023 Program             |
|---|---------------|--------------|--------------|--------------|----------------|----------------|--------------------|-----------------------------|--------------------------|
|   | (PHP bn)      |              |              |              |                |                |                    |                             |                          |
| <b>Gross Borrowing</b>                        | <b>609.6</b>  | <b>507.0</b> | <b>901.7</b> | <b>897.6</b> | <b>1,015.8</b> | <b>2,652.5</b> | <b>2,549.7</b>     | <b>2,163.5</b>              | <b>2,207.0</b>           |
| <b>External</b>                               | <b>189.5</b>  | <b>149.5</b> | <b>168.1</b> | <b>303.1</b> | <b>321.9</b>   | <b>742.4</b>   | <b>568.7</b>       | <b>520.1</b>                | <b>553.5</b>             |
| <i>Program Loans</i>                          | <i>72.0</i>   | <i>35.6</i>  | <i>35.1</i>  | <i>80.4</i>  | <i>78.2</i>    | <i>375.2</i>   | <i>166.1</i>       | <i>136.6</i>                | <i>219.2</i>             |
| <i>Project Loans</i>                          | <i>28.2</i>   | <i>18.8</i>  | <i>33.4</i>  | <i>34.0</i>  | <i>58.0</i>    | <i>49.1</i>    | <i>110.2</i>       | <i>120.7</i>                | <i>69.3<sup>b/</sup></i> |
| <i>Bonds and other inflows</i>                | <i>89.4</i>   | <i>95.1</i>  | <i>99.6</i>  | <i>188.7</i> | <i>185.7</i>   | <i>318.1</i>   | <i>292.3</i>       | <i>262.8</i>                | <i>265.0</i>             |
| <b>Domestic</b>                               | <b>420.1</b>  | <b>357.5</b> | <b>733.5</b> | <b>594.5</b> | <b>693.8</b>   | <b>1,910.1</b> | <b>2,010.6</b>     | <b>1,643.4<sup>c/</sup></b> | <b>1,653.5</b>           |
| <i>Treasury Bills</i>                         | <i>(17.3)</i> | <i>23.5</i>  | <i>26.4</i>  | <i>179.9</i> | <i>(8.1)</i>   | <i>463.3</i>   | <i>(153.3)</i>     | <i>(385.8)</i>              | <i>54.1</i>              |
| <i>Fixed Rate T-bonds</i>                     | <i>437.4</i>  | <i>334.0</i> | <i>707.1</i> | <i>414.5</i> | <i>702.0</i>   | <i>1,446.8</i> | <i>2,163.9</i>     | <i>2,029.2</i>              | <i>1,599.4</i>           |
| <b>Financing Mix<br/>(Domestic: External)</b> | <b>69:31</b>  | <b>71:29</b> | <b>81:19</b> | <b>66:34</b> | <b>68:32</b>   | <b>72:28</b>   | <b>78:22</b>       | <b>76:24</b>                | <b>75:25</b>             |

Note: Figures may not add up due to rounding off

<sup>a/</sup> Based on BTr actual data reported in the revised version of Cash Operations Report

<sup>b/</sup> Based on BTr estimates of disbursements

<sup>c/</sup> Net of new bonds issued to redeem 2023 maturities in September bond exchange (PHP43.769bn)

N/A not available

Source: Bureau of the Treasury, DBM BESF 2023

## VI. Sound Government Finances

# Major Tax Reforms Fund Economic Recovery Programs, Attract Investments

TRAIN and Sin Tax Collections  
(in PHP bn)

| Tax Measure   | 2018 | 2019  | 2020  | 2021  | 2022  | TOTAL |
|---------------|------|-------|-------|-------|-------|-------|
| TRAIN Law     | 68.4 | 130.7 | 107.2 | 171.0 | 216.5 | 693.7 |
| Sin Tax Laws* | N/A  | N/A   | 31.5  | 52.9  | 65.3  | 149.7 |

N/A – not applicable

\*Republic Act No. 11346 or “Increasing Excise Tax on Tobacco Products, Heated Tobacco Products and Vapor Products” and Republic Act No. 11467 or “Increasing sin taxes (i.e., excise tax on alcohol, heated tobacco products and e- cigarettes) for Universal Health Care (UHC)”

### Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

**Largest fiscal stimulus for enterprises in the country’s history**

*Provides an estimated US\$2bn of tax relief annually to the corporate sector to sustain employment or use for investments*

**Provides hefty corporate income tax rate cuts**

*Gives immediate 10-percentage points tax cut for MSMEs (from 30% to 20%) and 5-percentage points reduction for all other corporations (from 30% to 25%)*

**Provides more flexibility in the grant of fiscal and non-fiscal incentives**

*Rationalizes fiscal incentives, creating an enhanced incentive package that is performance-based, time-bound, targeted, and transparent.*

### Projects granted with tax incentives by the Fiscal Incentives Review Board

As of 25 May 2023, a total of 37 projects have been granted tax incentives by the Fiscal Incentives Review Board. The total investment capital for these projects amounted to PHP687.021bn or equivalent to US\$12.491bn\*\*. Projects granted with tax perks include mass housing, operations of a subway project, cement manufacturing, operations of a domestic roll-on/roll-off vessel, establishment of connectivity facilities for high-speed broadband services, industrial zone operation with activities in support of exporters, telecommunications and telecom infrastructure, Liquefied Natural Gas (LNG) storage and a regasification facility, automotive vehicles manufacturing, integrated stand-alone line for the manufacture of reinforcing steel bars, a data center expansion, manufacturing of semiconductors, hotel accommodation, and electric vehicle charging stations.

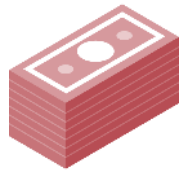
\*\*Foreign exchange rate used PHP55.00/US\$1

Source: DOF, Bureau of Internal Revenue, Bureau of Customs, Fiscal Incentives Review Board

## VI. Sound Government Finances

## Medium-Term Fiscal Framework and Priority Measures to Enhance Fairness and Efficiency of the Tax System

The Medium-Term Fiscal Framework serves as the blueprint to guide the consolidation process:



Reduce the fiscal deficit



Promote fiscal sustainability



Enable robust economic growth

### Priority Measures under the Framework



1. Promote efficient tax administration through digitalization



2. Implement measures that will help tax system catch up in the digital economy



3. Introduce tax measures that will promote environmental sustainability to address climate change

- *Imposition of tax on single-use plastics*
- *Study carbon taxation*



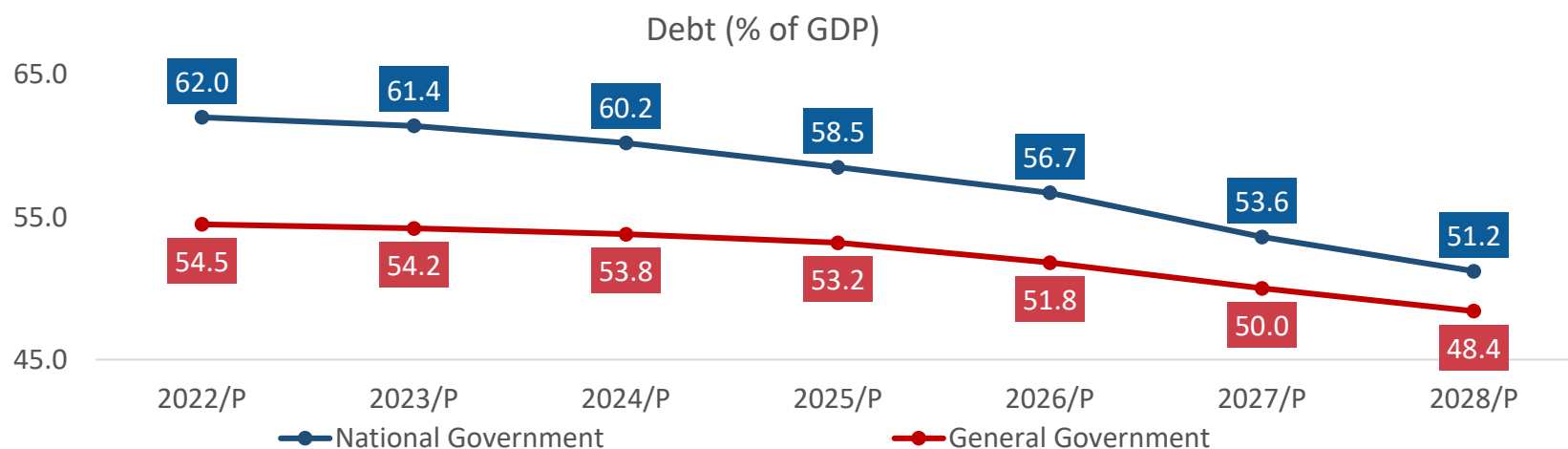
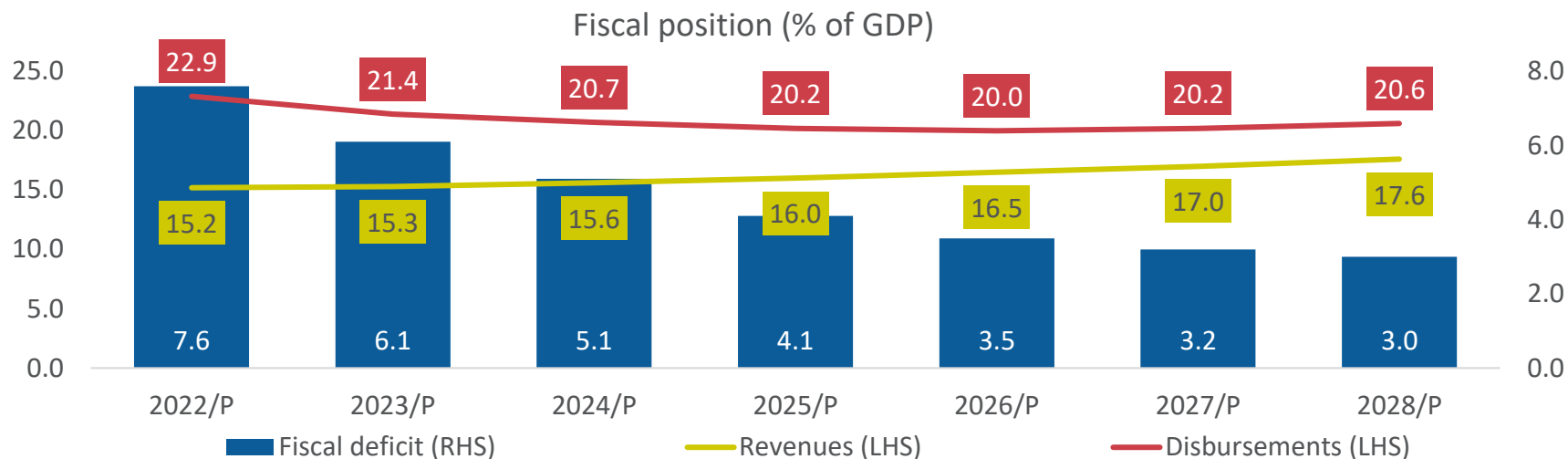
4. Pursue the remaining tax reform packages

- *Package 3: Real Property Valuation Reform*
- *Package 4: Passive Income and Financial Intermediary Taxation Reform (PIFITA)*

## VI. Sound Government Finances

# Medium-Term Fiscal Framework and Priority Measures to Enhance Fairness and Efficiency of the Tax System

### Medium-Term Fiscal Framework Targets



Source: Development Budget Coordination Committee (DBCC) as of 08 July 2022 and BTr submission as of 24 August 2022

P- Program/Projection

# VII. Infrastructure Program

## Building on a Solid Foundation

The government is committed to continue and further expand the “Build, Build, Build” program

**Build, Better, More**

Infrastructure investment will be sustained at **5% to 6% of GDP** annually from 2022-2028

*“I would like to reiterate the marching order of the President during his State of the Nation Address...the infrastructure development program will be pursued relentlessly” – Sec. Bonoan, DPWH*  
**The Build, Better More program will help ensure the country’s sustainable, robust, and inclusive growth.**

**3,770**

Infrastructure programs/activities/projects (PAPs)<sup>1/</sup> (PHP17.3tn)

**194**

Infrastructure Flagship Projects <sup>2/</sup> (IFP) (PHP8.3tn) that President Marcos approved last 9 March 2023 - Some of the new projects in the list include Panay Railway Project, Mindanao Railway Project III, North Long Haul Railway, San Mateo Railway, UP-PGH Diliman Project, the NAIA or Ninoy Aquino International Airport Rehabilitation Project, Ilocos Sur Transbasin Project, and the Metro Cebu Expressway.

### Status of IFP Implementation<sup>3/</sup>

- 68 ongoing implementation
- 25 approved for implementation
- 9 awaiting government approval
- 92 ongoing project preparation or pre-project preparation
- Increased infrastructure investment and efficiency in budget utilization
  - 2022 actual infrastructure disbursements: PHP1,278.5bn (5.8% of GDP), 13.8% higher y-o-y
  - Jan-Apr 2023 actual infrastructure disbursements: PHP346.9bn, 6.7% higher y-o-y
  - Q1 2023: 100% utilization rate of cash allocations by DPWH and DOTr

The establishment of the **Maharlika Investment Fund**, with the objectives of optimizing returns on investments and catalyzing socio-economic development, shall prioritize investments in infrastructure projects directed towards fulfillment of national priorities while obtaining the absolute return and achievable financial gains on its investments. <sup>7/</sup>

<sup>1/</sup> Based on Indicative Investment Requirements in Chapter 12 of the PDP 2023-2028 as of March 2023

<sup>2/</sup> Based on IFP list in NEDA website and pronouncements of Secretary Balisacan last March 2023.

<sup>3/</sup> As of June 2023 (NEDA)

<sup>4/</sup> Infrastructure figures for 2001-2018 are obligation-based; 2019 onwards are cash-based.

<sup>5/</sup> Disbursement basis, the government transitioned to cash-based budgeting starting FY 2019

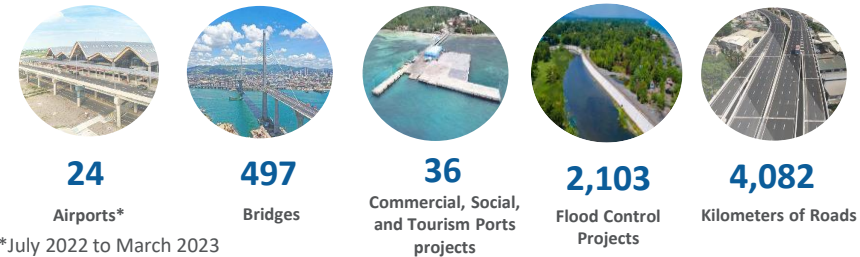
<sup>6/</sup> Infrastructure program spending projection based on 184th Development Budget Coordination Committee (DBCC) Meeting on 24 April 2023.

<sup>7/</sup> Source: Senate Bill No. 2020, approved on Third and Final Reading

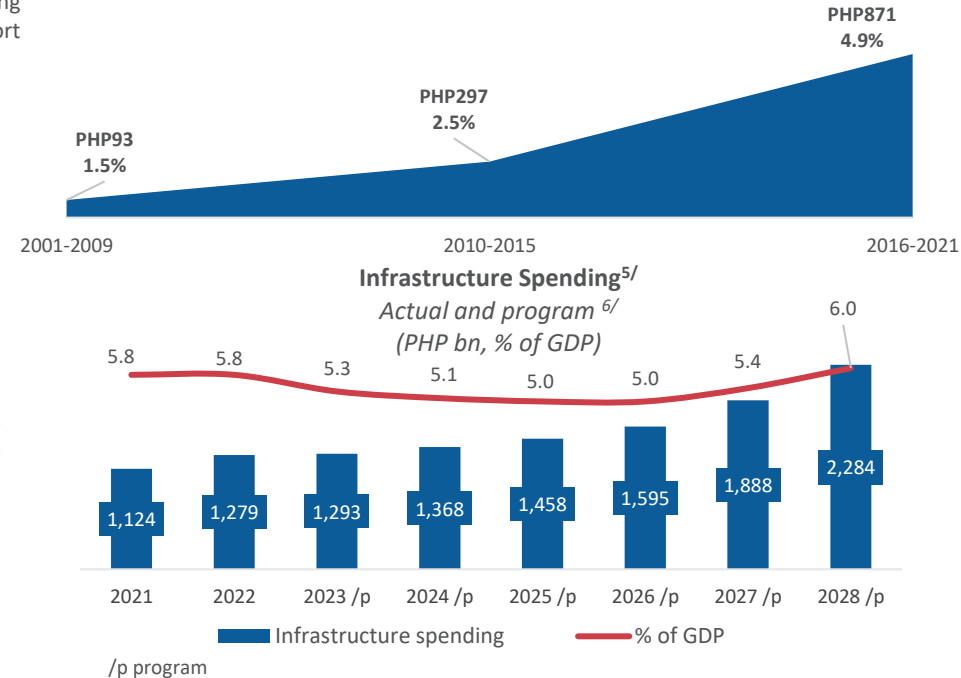
Source: NEDA, DBM, DPWH, DOTr

Tangible results show the government’s commitment to upgrade the country’s infrastructure network

No. of completed projects from July 2022 to May 2023



Infrastructure spending<sup>4/</sup> (average in PHP bn, % of GDP)

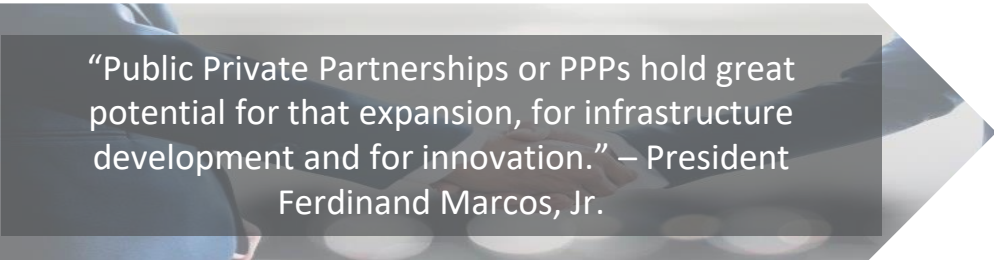


## VII. Infrastructure Program

# Forging Stronger Partnerships with the Private Sector

### Broader private sector participation

Status of PPP projects as of 31 May 2023



- One of the priority bills mentioned by President Marcos, Jr. during his first SONA is the amendment of Republic Act No. 6957 or the Build-Operate-Transfer (BOT) Law in order to create a “more competitive and enabling environment” for PPP.
- Meanwhile, the revised 2022 IRR of the BOT Law took effect in October 2022.

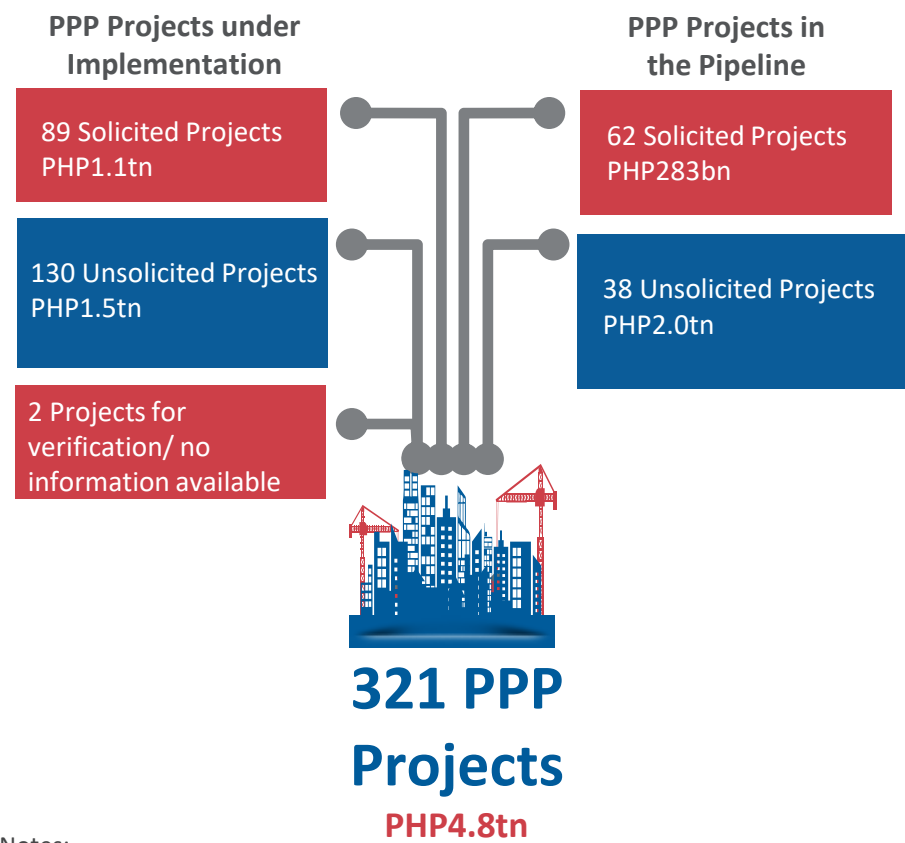
**Revised 2022 IRR of the BOT Law includes:**

**A. Reforms that address stakeholder concerns on the financial viability and bankability of PPP projects**

- Provided a fairer definition of **material adverse government action (MAGA)**
- Provided that ICC guidelines shall determine a methodology to calculate the **Reasonable Rate of Return**
- Reinstated the **tariff setting and adjustment regime** of the 2012 IRR
- **Deleted clause prohibiting arbitration** arising from regulatory acts and decisions

**B. Reforms that address concerns about potential delays due to extra steps, rigid process, or ambiguous provisions**

- Provided flexibility in setting the termination payment regime of a project
- Clarified the definition of Direct Government Subsidy and the applicable caps
- Clarified the provision on independent consultants
- Required only the disclosure (not consent) of loan or financing documents



**Notes:**

- This list includes only those projects where the PPP Center is involved in either the development, appraisal, procurement or implementation, and those projects not belonging to the former but which the PPP Center is monitoring.
- PPP Projects in the Pipeline refers to projects under development, or for approval, or for procurement.

Source: PPP Center



## VIII. Outlook

## Sound Fundamentals Anchor Firm Economic Recovery

| Particulars                                | Actual |       |                     | Assumptions/Projections |           |           |           |           |           |
|--|--------|-------|---------------------|-------------------------|-----------|-----------|-----------|-----------|-----------|
|  | 2021   | 2022  | 2023                | 2023                    | 2024      | 2025      | 2026      | 2027      | 2028      |
| Real GDP Growth (%)                        | 5.7    | 7.6   | 6.4 (Q1)            | 6.0 – 7.0               | 6.5 – 8.0 | 6.5 – 8.0 | 6.5 – 8.0 | 6.5 – 8.0 | 6.5 – 8.0 |
| Inflation Rate (%)*                        | 3.9    | 5.8   | 7.2<br>(Jan-Jun)    | 5.0-6.0                 | 2.0-4.0   | 2.0-4.0   | 2.0-4.0   | 2.0-4.0   | 2.0-4.0   |
| Growth of goods export (%)**               | 12.5   | 5.9   | (10.0)<br>(Jan-Mar) | 1.0                     | 6.0       | 6.0       | 6.0       | 6.0       | 6.0       |
| Growth of goods import (%)**               | 30.5   | 18.5  | (0.5)<br>(Jan-Mar)  | 2.0                     | 8.0       | 8.0       | 8.0       | 8.0       | 8.0       |
| OF Cash Remittances, Growth Rate (%)**     | 5.1    | 3.6   | 3.2<br>(Jan-Apr)    | 3.0                     | 3.0       | N/A       | N/A       | N/A       | N/A       |
| Net Foreign Direct Investments (US\$ bn)** | 12.0   | 9.2   | 2.0<br>(Jan-Mar)    | 9.0                     | 11.0      | N/A       | N/A       | N/A       | N/A       |
| Current Account Balance (% of GDP)**       | (1.5)  | (4.4) | (4.3)<br>(Jan-Mar)  | (3.4)                   | (3.2)     | N/A       | N/A       | N/A       | N/A       |

Source: Medium-Term Macroeconomic Assumptions and Fiscal Program for FY 2023-2028, Development Budget Coordination Committee (DBCC) approved on 9 June 2023.

\*Inflation rate assumptions were approved in the DBCC meeting on 9 June 2023.

\*\*Projections approved by Monetary Board on 16 June 2023.

N/A – Not available

## IX. Investor Relations Group



### Promoting the Philippine economy at home and abroad

The IRG undertakes a range of initiatives to build awareness among domestic and international investment audiences on the Government's economic reform program, promote specific investment opportunities in the Philippines, and facilitate information exchange and dialogue between the Government's key economic policy decision-makers and domestic/international investors. These initiatives include:

- Regular Economic Briefings to update the business community, media, and industry organizations on the country's economic performance
- Investor Roadshows to bring the Government's resilient economic performance record, commitment to sound economic management, and responsible reform to members of the international financial community
- Media Briefings to raise awareness on the Government's progress in economic reforms and plans for ongoing reforms
- Government Policy Roadshows to increase the business community's understanding of government policy measures to generate support for the policy implementation process
- Investor Teleconferences to provide timely updates on key economic performance indicators
- E-mail service to keep investors and other investors abreast of data releases on a regular basis
- An English Language Microsite, <https://www.bsp.gov.ph/Pages/IRO.aspx>, to provide a wide range of easily accessible information about the Philippines' economic performance and the government's economic policies

#### Contact Information

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