

REPUBLIC OF THE PHILIPPINES

---

BUREAU OF THE TREASURY



**SESSION 7: GOVERNANCE FRAMEWORK TO  
MANAGE RISKS FROM CONTINGENT LIABILITIES**

Rosalia V. De Leon  
Treasurer of the Philippines

# SOURCES OF CONTINGENT LIABILITIES

National Government Direct  
Guarantees

# LEGAL BASIS

We provide two guarantees: Direct Guarantees (support to GOCCs) and Indirect Guarantees

## GOCC Charters

- Authority to borrow
- Example: NFA is allowed to borrow commercially to finance its operations with NG guarantees

## Republic Act 4860 (Foreign Borrowings Act), amended under Presidential Decree No. 1939

- NG caps outstanding guarantees to GOCCs at USD7.5B

## Department of Finance Circular 1-2016

- Risk-based guarantee framework

## Executive Order 245

- BTr's mandate to guarantee foreign exchange cover fees due NG

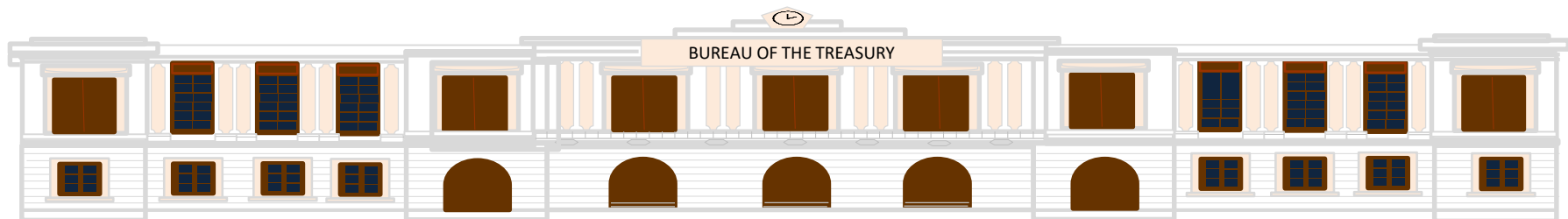
## Republic Act No. 8182, as amended (Official Development Assistance)

- Guarantee foreign loans extended to GOCCs for economic development purposes provided that at least 75% is spent for projects which are revenue-generating and self-liquidating

# NG GUARANTEES

## National Government provides guarantee to GOCC projects which are:

- Consistent with the objectives and goals under Philippine Development Plan and are within the identified priority programs and projects under the Medium Term Public Investment Program
- GOCC projects which passed the test of economic and social viability and have satisfied all the conditions set forth by the Investment Coordinating Committee (ICC)
- Off balance sheet – Contingent Liabilities



# SAFEGUARDS IN ISSUING GUARANTEES

National Government Guaranteed Borrowings undergo a stringent process to ensure prudent management of contingent liabilities.

## Timeliness

- Request for programming of net lending assistance submitted to DOF on or before the succeeding year of the required advances
- Actual drawdowns from the net lending program submitted 90 days prior to actual drawdown

## Monitoring

- Projected receipts and expenditures submitted by GOCCs are reviewed and evaluated
- BTr submits a monthly summary of advances to and collections from GOCCs

## Inter-Agency Evaluation and Appropriation

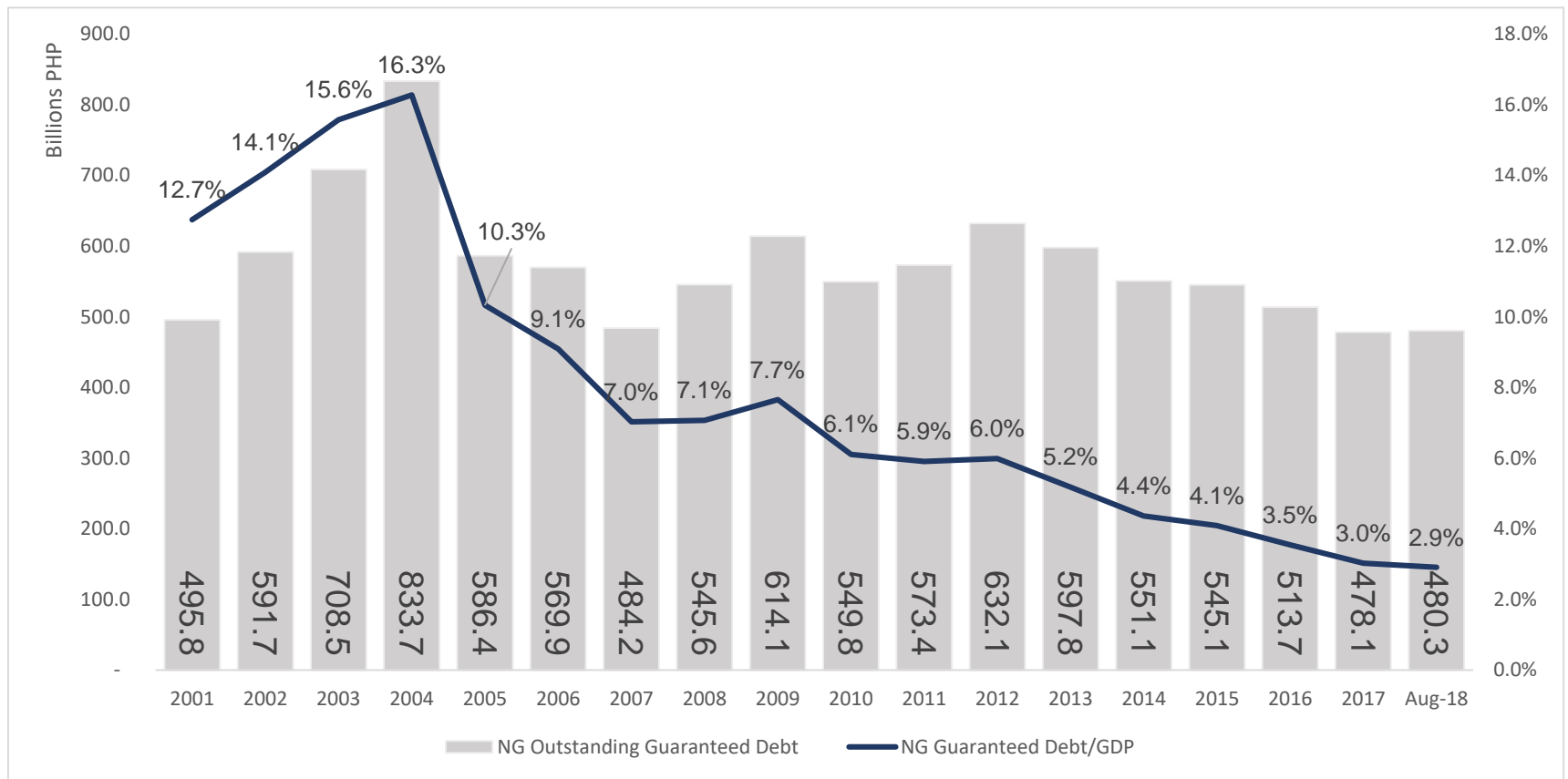
- The DBCC consisting of DOF, BTr and DBM determines the appropriate amount to be programmed for net lending
- The decision is considered in the fiscal programming and monitoring of the Consolidated Public Sector Financial Position

## Penalty Charges

- NG imposes penalty charges to advances made by NG as guarantor of GOCC obligations without endorsement from DOF

# DIRECT GUARANTEES

Declining exposure to NG direct guarantees as % to total GDP



GOCCs' Share of Outstanding Guaranteed Debt



August 2018

■ PSALM ■ NFA ■ DBP ■ LBP ■ Others

# DEBT GUARANTEE VALUATION

## Old approach

- Old framework – flat pricing
  - 1% guarantee fee rate
  - 3% FX cover fees regardless of currency

# Risk-based Policy Framework | Issuance and Pricing of Guarantees

Forms part of the prudent fiscal management of the NG to improve the management of guaranteed debt, recognize the real cost of a guarantee and FX risk cover as it relates to the financial conditions of GOCCs according to set parameters, and for the framework to align with international standards.

## Key Features

Cap of Fees	<ul style="list-style-type: none"><li>• 1.5% cap on guarantee fees since GOCCs charged greater than 1.5% are usually highly subsidized.</li></ul>
Performance Monitoring	<ul style="list-style-type: none"><li>• The GOCCs and GFIs' performance are monitored.</li></ul>
Adjustment Rate	<ul style="list-style-type: none"><li>• Based on performance, guarantee fees are subject to a step-up or reduction rate. The adjustment will be at least 10bps.</li></ul>
Qualitative Factors	<ul style="list-style-type: none"><li>• Governance rating, development goals and other qualitative factors are considered in the final guarantee fee payable.</li></ul>

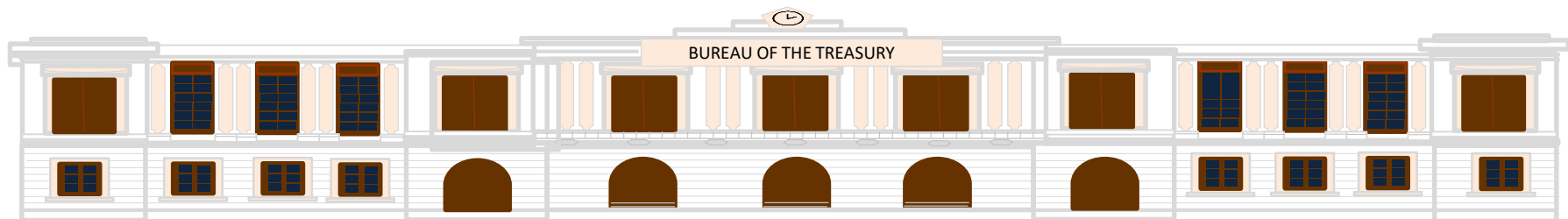


# SOURCES OF CONTINGENT LIABILITIES

Indirect Guarantees:  
Public Private Partnerships

## Public-Private Partnerships (PPP)

- **LEGAL BASIS:**
  - CL based on individual PPP contracts
  - Build Operate Transfer Law
- Indirect Guarantee
- Regulatory risk instead of market risk



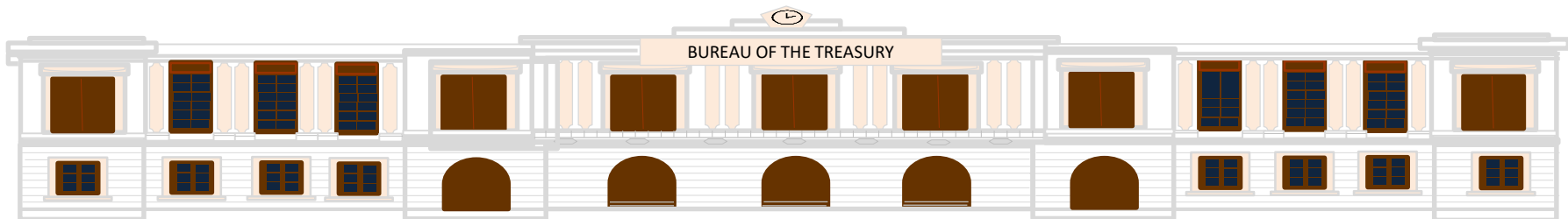
# TECHNICAL WORKING GROUP On Contingent Liabilities

## MEMBERS

- Bureau of Treasury (secretariat)
- Department of Finance
- Department of Budget and Management
- PPP Center

## TASKS

- ✓ Manage CL of PPPs
- ✓ Monitor project implementation
- ✓ Policy recommendation
- ✓ Valuation methodology to guide policy:
  - Portfolio Risk Management Approach



## Risk Management Program (RMP)

- ✓ Unprogrammed Appropriation
- ✓ Since 2014
- ✓ Can be availed with the recommendation of TWG-CL given:
  - ✓ Excess revenue Collection
  - ✓ New Source of Revenue
- ✓ FY 2018 Provision, FY 2019 Proposal is PHP 30 billion

Type of Project	Number of Projects	Size (Php Billions)	CL Value (Php Bilions)
Current (2010 onwards)	16	200.76	11.65
Legacy (pre-2010)	61	752.66	10.97
<b>TOTAL</b>	<b>77</b>	<b>953.42</b>	<b>22.62</b>
Total in USD		~17.65 B	~ 418 M

# FISCAL RISK STATEMENT

## Comprehensive view of the exposure to fiscal risks from

- ✓ Fiscal projections and turnouts
- ✓ public debt and
- ✓ contingent liabilities
  - ✓ Stock and flow
  - ✓ GOCCs, PPPs, LGUs, Natural Disasters, etc

## PPPs

- ✓ List of awarded PPPs
- ✓ Details on expected disbursements

## Reforms and risk-mitigation efforts

REPUBLIC OF THE PHILIPPINES

---

BUREAU OF THE TREASURY



**END OF SLIDE**

Thank you.