

TAX AND FINANCIAL SERVICES ADVOCACY PAPER 2021



ABOUT ECCP

The **European Chamber of Commerce of the Philippines (ECCP)** is a service-oriented organization whose main goal is to foster close economic ties and business relations between the Philippines and Europe. The ECCP does this by providing a wide range of consultancy services and by creating linkages between companies, organizations, and individuals with existing or potential business interests in Europe and the Philippines. It is also at the forefront of pro-business, pro-growth advocacy in the Philippines, representing European business interests for increased market access and trade facilitation, at the highest level of Philippine political discussions.

The ECCP sees itself as the stepping stone for Europeans into the Philippine market and for Filipinos into the European market.



TAX AND FINANCIAL SERVICES ADVOCACY PAPER 2021



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Positions expressed in the advocacy papers are the result of the activities of the Sector Committees working under the ECCP.

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We would also like to acknowledge the support of our committee members.

METHODOLOGY

The 2021 edition of the ECCP Advocacy Papers features issues and recommendations formed after extensive discussions between members of the ECCP sector committees, dialogues and meetings with representatives from the Philippine Government, and other stakeholders. The ECCP has also taken into consideration the information gathered from organizing different events, participating in numerous hearings and committee meetings in both chambers of the Philippine Congress, as well as in private sector consultations held by several government agencies.

Further, the recommendations provided in each paper were primarily based on the discussions during the quarterly sector committee meetings. In close cooperation with the sector committee leaders and members, the ECCP Advocacy Team thoroughly analyzed every issue and advocacy recommendation to ensure that they are in line with European business interests and priorities. Once the Advocacy Team has finalized the first draft of each sector paper, it was then circulated to the Committee members and other stakeholders for consultation and subsequently, gathered inputs to be included in the final draft of the papers.

The assessment of the status of each recommendation included in 2019 Advocacy Papers were examined under the following criteria:

Completed/Substantial Progress: Recommended action has either been completed or there has been significant progress towards the realization of the recommendation.

Some Progress: Movement towards realizing the recommendation has been made, but substantial work still needs to be done to fully achieve and complete the proposed measure.

No Progress/Retrogression: Minimal progress or no movement towards attaining the recommended reforms were done, or the status of the issue has worsened and has evolved to an even bigger bottleneck for European businesses.

MESSAGE FROM THE ECCP PRESIDENT

On behalf of the European Chamber of Commerce of the Philippines (ECCP), I am pleased to present the 2021 ECCP Advocacy Papers. This year's edition features an overview of the current business regulatory landscape in the Philippines as well as industry-specific challenges of the 22 sector committees of the Chamber. More importantly, the paper puts forward constructive policy recommendations for strengthening European-Philippine economic relations and opening up a new decade of growth opportunities as the theme of this year's Summit suggests.

Indeed, the past year has been a period unlike any other with the ongoing health crisis testing the resilience of most organizations and redefining the way we do business. Our advocacy work has also stepped up in organizing virtual discussions and actively engaging key stakeholders including policymakers to raise awareness on issues that matter the most to our members as well as push for reforms that will support our community during this period of uncertainty.

Understandably, the past 20 months have seen a shift of policy priorities from the Philippine government by focusing more on pandemic response and providing social safety nets to the affected and vulnerable. Nevertheless, we have witnessed promising developments on the economic front that will help restore business confidence and boost the country's position as a competitive destination for trade and investments including those from Europe. Among these include the signing of the landmark Corporate Recovery and Tax Incentives for Enterprises Act, the Financial Institutions Strategic Transfer Act, and the inking of the world's largest trade bloc known as the Regional Comprehensive Economic Partnership, of which the Philippines is a party. In addition, the Philippines' improved ranking of 90th in 2020 from 124th in 2019 of the World Bank's Doing Business report demonstrates the global community's relative trust in the country's business environment.

We at the Chamber strive to make the most of these exciting developments in the years to come. The 2021 ECCP Advocacy Papers is our contribution to addressing some of the remaining challenges to helpfully realize the potential of our bilateral ties and economic prospects. I would like to thank our Committee leaders, member companies, and the team behind our flagship publication. Moreover, the European business community continues to stand at the forefront of these crucial issues, which when addressed, will further support our shared goals towards inclusive and sustainable recovery. As such, we remain committed to working with the Philippines in navigating this new decade of growth opportunities.

Mr. Lars Wittig
ECCP President



MESSAGE FROM THE EU AMBASSADOR

I congratulate the European Chamber of Commerce of the Philippines (ECCP) for the 2021 edition of their Advocacy Papers.

These papers offer useful food for thought and action at a crucial time.

At present, the global economy is poised to show its most robust post-recession recovery. In the EU, recovery is underway following a massive vaccination campaign and an ambitious recovery plan decided collectively by EU leaders in 2020. In the EU, today, more than 70% of adults are vaccinated, resulting in improved business and consumer confidence.

Vaccination is the way to pull through collectively from a health crisis of this proportion. It should not stop there. At present, the EU is first and most urgent priority is to speed up global vaccination to ensure that access to vaccines becomes equitable worldwide.

While the European Union has focused on tempering the spread of the virus and its impact on lives and the economy, the EU has remained crucial in the global effort to strengthen the multilateral trading system, fight protectionism and ensure that global trade remains unhampered.

This strategy has reaped fruits. It is anticipated that 19 EU Member States will revert to pre-pandemic growth levels in 2021 and the remainder will follow in 2022. In the last quarter, growth in the Euro area outpaced both the US and China.

Next Generation EU and the seven years multi-annual budget will invest in both short-term recovery and long-term prosperity. It will support innovative policies and will set Europe on a path to a sustainable resilient recovery. One-third of this €1800 billion budget will finance the European Green Deal, which will be the EU's lifeline out of the COVID 19 crisis. This Green Deal will transform the EU into a modern, resource-efficient competitive economy.

The EU and the Philippines have established a relationship characterized by a shared goal of peace and prosperity for our peoples. In terms of commercial relations, we have seen steady growth in the bilateral trade in goods between the EU and the Philippines over the last years. However, EU-PH trade today is far from its full potential. Likewise, the Philippines needs to attract a greater portion of EU investments in ASEAN.

Let us continue to work together to achieve a sustainable and resilient recovery for our economies. I welcome these advocacy papers as a useful contribution in our pursuit of creating a level playing field and opportunities for industries and sectors to be able to participate; provide more choices to our consumers, and promote a sustainable approach to trade.

H.E. Luc Véron
Ambassador
Delegation of the European Union to the Philippines



MESSAGE FROM THE PRESIDENT OF THE REPUBLIC OF THE PHILIPPINES

My warmest greetings to the **European Chamber of Commerce of the Philippines (ECCP)** as it organizes the **2021 European-Philippine Business Summit**.

This event is an opportune time to explore and pursue various programs and strategies that will enable the business community to overcome the adverse effects of the COVID-19 pandemic on our economy.

The government is one with you in this goal as it has shown in its commitment to advance free trade and to restore confidence in the Philippine economy through our landmark Tax Reform Law and the ratification of the Regional Comprehensive Economic Partnership, of which the Philippines is a party.

I hope that you will remain steadfast in promoting and attracting trade and investments to the country, especially from Europe. Together, let us revitalize our industries and boost our productivity under the new normal.

May you have a successful summit.

Rodrigo Roa Duterte

President of The Republic of the Philippines



MESSAGE FROM THE DEPARTMENT OF TRADE AND INDUSTRY

The presence of the European Chamber of Commerce in the Philippines (ECCP) in the country is a testament to the relationship between our economies evident in the current levels of trade and investments. In 2020, Europe ranked as the Philippines' 5th trading partner, with total bilateral trade amounting to US\$13.06 billion. And as we secure the collective development of both our nations, the Department of Trade and Industry (DTI) continues to rely on the steadfast efforts of ECCP in facilitating market access and in creating a level playing field for both European and Filipino companies.

Together with the holding of the **2021 European-Philippine Business Summit (EPBS)**, the launch of the **2021 ECCP Advocacy Papers** not only reflects the continued partnership of both nations that has flourished and strengthened throughout the years, but is also the fruit of the hard work and commitment of the men and women behind the successes of your organization.

Despite the challenges of the pandemic, the Philippines remains a conducive place to do business and is still considered an emerging economy for investment. This can be attributed to our strong economic fundamentals and is a result of landmark policies and programs of the Duterte administration to create an enabling business environment in the country.

Among these initiatives is the consistent pursuit of game-changing reforms such as the **Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act** and the **Financial Institutions Strategic Transfer (FIST) Act**, which are expected to bring in more investments and ensure the stability of our financial system to accelerate the country's quick and sustainable economic recovery. The Philippines is also part of the **Regional Comprehensive Economic Partnership (RCEP) Agreement**, which is intended to strengthen regional economic integration and increase economic resiliency through enhancing market access for goods, services, and investment. All of these, together with the review of other economic restrictions, have the common goal of attracting more investments that will create more jobs in the country.

As the Philippine economic situation continues to improve, this year's theme, **Amidst the Crisis: A New Decade of Growth Opportunities**, sets the tone for our continued partnership. We are counting on the private sector to harness the potential of our revitalization as we embark on pursuits that will ensure the inclusive and sustainable development of our nations. Ultimately, our goal is to make your investments in the country as profitable as possible, which will secure the development of our economies, provide better opportunities for employment, and empower our citizens to become productive members of society as we take on the greater effort of nation-building to create a better quality of life for all Filipinos.

Congratulations and *mabuhay po kayo!*

Hon. Ramon Lopez

Secretary

Department of Trade And Industry



MESSAGE FROM THE HOUSE OF REPRESENTATIVES

Our warmest felicitations to the European Chamber of Commerce of the Philippines, ECCP President Lars Wittig, ECCP Vice Presidents Amal Makhoulfi and Kavita Hans, distinguished officers and members, on the launching of the 2021 edition of ECCP Advocacy Papers.

They say that the darkest nights produce the brightest stars. We convene today at a time of great uncertainty brought about by a global pandemic. As Speaker of the House of Representatives of the Philippines, I would like to express my deep appreciation to the European Chamber of Commerce in the Philippines and the ECCP Advocacy Committees in producing the 2021 ECCP Advocacy Papers, covering the most significant areas in development policy, from agriculture, the environment and water, to education, health care, and human capital, and of recent import, defense and disaster response, and renewable and energy efficiency. These papers are vital inputs to policy formulation, can serve to enhance Philippine development road maps, and be our springboard for continued discussion and engagement between the ECCP and our government in forging sustainable means of collaboration.

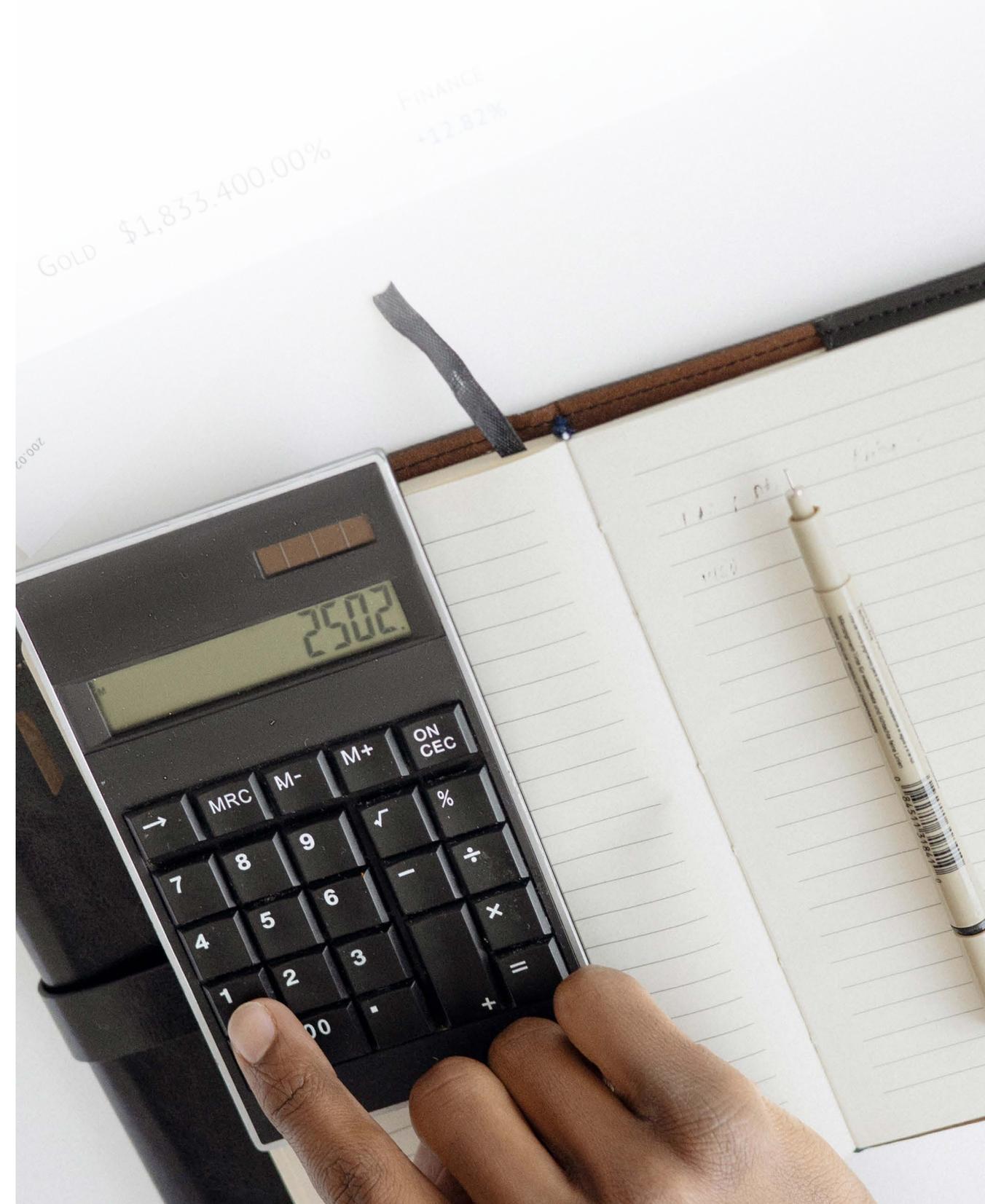


On the part of the House of Representatives, we intend to move towards a more resilient, more inclusive, and more sustainable post-pandemic economy with reforms which seek the following: one, to liberalize foreign investments into the country; two, to promote greater competition in key industries; three, to enhance governance in key infrastructure agencies; and four, to remove restrictions on foreign equity, thereby making economic policies more attuned to the realities in both local and international landscapes.

The opportunity to build a better economy is before us and should indeed, be seized. Through cooperation and collaboration, let us together bring into fulfillment a decade of renewal and growth.

Thank you.

Lord Allan Jay Q. Velasco
House Speaker District Representative Marinduque



WHERE ARE WE NOW?

THE PHILIPPINES

The Philippines prides itself in its dynamic and robust economy, transforming into one of the region's top economic performers and attracting companies to invest and expand their operations. In the last decade, the country was able to sustain an average annual growth of 6.4% between 2010-2019 from an average of 4.5% between 2000-2009.¹ Among its neighboring countries in the Association of Southeast Asian Nations (ASEAN), the Philippines was ranked 4th in terms of Gross Domestic Product (GDP) growth rate with 6.1% in 2019 (Table 1).

Table 1. ASEAN GDP Year-on-Year Growth Rates, 2019 and 2020 (% per year)

Country	2019	2019 ranking	2020	2020 ranking
Brunei Darussalam	3.9	8th	1.2	3rd
Cambodia	7.1	1st	-3.1	6th
Indonesia	5.0	5th	-2.1	5th
Lao People's Dem. Rep.	4.7	6th	-0.5	4th
Malaysia	4.3	7th	-5.6	8th
Myanmar	6.8	3rd	3.3	1st
Philippines	6.1	4th	-9.6	10th
Singapore	1.3	10th	-5.4	7th
Thailand	2.3	9th	-6.1	9th
Vietnam	7.0	2nd	2.9	2nd

Asian Development Bank. *Asian Development Outlook 2021*²

However, the onset of the unprecedented COVID-19 pandemic has resulted in a drastic decline of economic activity around the world. In the Philippines, like in many other countries, the government had to implement huge fiscal support programs and impose strict quarantine measures to mitigate the spread of the virus, which in return restricted economic activity. Specifically in the Philippines, the recessionary impacts of the pandemic contracted the GDP growth rate by 9.6% for the year 2020 (Table 1). The Philippine Statistics Authority (PSA), which has been collecting annual data since 1947, records this decline as the first annual contraction since the Asian Financial Crisis seen in 1998. It also surpassed the prior record of 7.0% contraction in 1984.³

The annual preliminary figures from the PSA show that the unemployment rate rose to 10.3% in 2020, accounting for 4.5 million unemployed Filipinos in the labor force, which is significantly higher compared to the previous year's 5.1% rate. Likewise, the country's employment rate dropped from 94.9% in 2019 to 89.7% in 2020, with the Services sector accounting for 56.9% share, followed by the Agriculture sector with 24.8%, and the Industry sector with 18.3%.⁴

Currently, unemployment rate for July 2021 is estimated at 6.9%, the lowest recorded rate since in April 2020. The country also recorded a significant increase in terms of employment rate at 93.1% for the same month.⁵

On the other hand, headline inflation rose further to 3.5% in December 2020, from 3.3% in November 2020, primarily due to the increase in the inflation of heavily-weighted food and non-alcoholic beverages at 4.8% during the month. Additionally, annual increments were higher in terms of health (2.6%); transport (8.3%); and restaurant and miscellaneous goods and services (2.5%).⁶ The Bangko Sentral ng Pilipinas (BSP) posted a slight increase in the average headline inflation for 2020 at 2.6%, but remained well within the government's target range of 2-4% for the year.⁷ Subsequently, the PSA recorded a 4.9% headline inflation rate for August 2021, from 4.0% of the previous month, which is the highest inflation recorded since January 2019. The uptrend was mainly brought about by the higher annual increment in the index of the heavily-weighted food and non-alcoholic beverages at 6.5% during the month, from 4.9% in July 2021.⁸

In the 2021 World Competitiveness Ranking compiled by the Institute for Management Development (IMD), the Philippines ranked 52nd out of 64 countries, slipping down seven spots from the previous ranking. Specifically, the report noted the country's rankings dropping in three of the factors with Economic Performance falling 13 places to 57th; Government Efficiency slipping three spots to 45th; and Business Efficiency dropping from 33rd to 37th. Meanwhile, the Infrastructure category retained its ranking at 59th.⁹

In terms of the country's Foreign Direct Investments (FDI), the BSP officially recorded USD 6.5 billion net inflows for 2020, which is a 24.6% contraction from the USD 8.7 billion net inflows in 2019. The contraction was primarily driven by the fluctuation of supply chains and business outlooks that had affected investor decisions. Majority of the equity capital placement came from Japan, the Netherlands, United States of America (USA) and Singapore wherein these capital were channeled to manufacturing, real estate and the financial and insurance industries.¹⁰

On the other hand, total FDI net inflows from January to June 2021 registered at USD 4.3 billion. Specifically, the top source country is Singapore with USD 519.88 million, followed by Japan with USD 259.85 million and USA with USD 69.87 million. Investments were channeled mainly to manufacturing, financial and insurance, and electricity, gas, steam, and air-conditioning industries.¹¹



1 World Bank. (07 April 2021). Philippines: Overview. Retrieved from <https://www.worldbank.org/en/country/philippines/overview>
 2 Asian Development Bank. (April 2021). Asian Development Outlook 2021. Retrieved from <https://data.adb.org/dataset/gdp-growth-asia-and-pacific-asian-development-outlook>
 3 Nikkei Asia. (28 January 2021). Philippines GDP shrinks 9.5% in 2020, worst since 1947. Retrieved from <https://asia.nikkei.com/Economy/Philippines-GDP-shrinks-9.5-in-2020-worst-since-1947>
 4 Philippine Statistics Authority. (08 March 2021). 2020 Annual Preliminary Estimates of Labor Force Survey. Retrieved from <https://psa.gov.ph/content/2020-annual-preliminary-estimates-labor-force-survey-lfs>

5 Philippine Statistics Authority. (07 September 2021). Unemployment Rate in July 2021 is Estimated at 6.9 percent. Retrieved from <https://psa.gov.ph/content/unemployment-rate-july-2021-estimated-69-percent>
 6 Philippine Statistics Authority. (05 January 2021). Summary Inflation Report Consumer Price Index (2012=100): December 2020. Retrieved from <https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-december-2020>
 7 Bangko Sentral ng Pilipinas. (2020). BSP Inflation Rate Report. Retrieved from <https://www.bsp.gov.ph/SitePages/MediaAndResearch/Inflation%20Report.aspx>
 8 Philippine Statistics Authority. (07 September 2021). Summary Inflation Report Consumer Price Index (2012=100): August 2021. Retrieved from <https://psa.gov.ph/statistics/survey/price/summary-inflation-report-consumer-price-index-2012100-august-2021>
 9 IMD World Competitiveness Center. (2021). World Competitiveness Ranking. Retrieved from <https://www.imd.org/centers/world-competitiveness-center/rankings/world-competitiveness/>
 10 Bangko Sentral ng Pilipinas. (10 March 2021). FDI Registers US\$509 Million Net Inflows in December 2020; Full-Year Level Reaches US\$6.5 Billion. Retrieved from <https://iro.ph/article/details.php?articleid=3547&catid=4>
 11 Bangko Sentral ng Pilipinas. (10 September 2021). FDI Net Inflows Up by 60.4 Percent YoY in June 2021; H1 2021 Level Reaches US\$4.3 Billion. Retrieved from <https://iro.ph/article/details.php?articleid=3547&catid=4>

At the European level, FDI net inflows registered at USD 38.42 million with Germany accounting for USD 29.02 million, followed by the United Kingdom (USD 4.52 million), Sweden (USD 3.88 million), France (USD 1.99 million), and Luxembourg (USD 1.66 million).¹²

The total external trade of the country in terms of goods was recorded at USD 155.03 billion in the year 2020, which is lower by 15.1% compared to the USD 182.52 billion recorded during 2019. Among the major trading partners are the People's Republic of China, Japan, and the USA.¹³ The European Union (EU) followed as the fourth largest trading partner, accounting for 8.4% of the country's total trade in 2020. Meanwhile, as for the Philippines' bilateral trade with the EU member countries, Germany ranked as the top trading partner.¹⁴ Likewise, in 2019, Germany ranked as the highest trading partner with a total trade of USD 5.55 billion or 31.5 percent of EU's total trade, followed by the Netherlands, France, the United Kingdom, and Italy.¹⁵

Over the past years, the Philippines was able to maintain its credit ranking at 'BBB' with a stable outlook from various agencies. However, the recent negative outlook from Fitch reflects the increasing risks to the credit profile from the impact of the pandemic and its aftermath.¹⁶ The table below shows the latest ratings from various agencies:

Table 2. Philippine Credit Ratings

Date	Agency	Rating
July 2020	Moody's	Baa2 Stable
May 2021	Standard & Poor	BBB Positive
July 2021	Fitch	BBB Negative

Source: Moody's, Standard and Poor, Fitch

Without a doubt, the adverse impacts of the global crisis hampered the country's long-term notable gains. However, recent reports also show a promising growth forecast for the country as global recovery sustains its momentum. Particularly, the country posted a strong rebound in the second quarter of 2021 with a GDP growth of 11.8% compared to the -16.9% rate of the same period last year. Categorically, the main contributors are manufacturing (22.3%); construction (25.7%); and wholesale and retail trade; repair of motor vehicles and motorcycles (5.4%). Among the major economic sectors, Industry and Services posted positive growths of 20.8% and 9.6%, respectively.¹⁷ GDP growth is also expected to increase at 4.5% in 2021 and 5.5% in 2022; while inflation rates are forecasted at 4.1% in 2021 and 3.5% in 2022.¹⁸ However, the country continues to be vulnerable given the emergence of new variants of the virus and hiccups on the vaccine rollout. With this, substantial reforms on key economic policies, ease of doing business, investment on digital infrastructure, and strengthening the public health system have a pivotal role for the country to address the adverse impacts caused by the pandemic as well as boost economic recovery and competitiveness.

Billion. Retrieved from <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?ItemID=5926>

¹² Bangko Sentral ng Pilipinas. (n.d.) Net Foreign Investment Flows. Retrieved from <https://www.bsp.gov.ph/statistics/external/Table%2010.pdf>

¹³ Philippine Statistics Authority. (August 2021). 2020 Foreign Trade Statistics of the Philippines. Retrieved from https://psa.gov.ph/sites/default/files/2020%20FTS%20Publication_signed-compressed.pdf

¹⁴ European Commission. (2021). Countries and Regions: The Philippines. Retrieved from <https://ec.europa.eu/trade/policy/countries-and-regions/countries/philippines/>

¹⁵ Philippine Statistics Authority. (28 April 2020). Highlights of the 2019 Annual Report on International Merchandise Trade Statistics of the Philippines. Retrieved from <https://psa.gov.ph/content/highlights-2019-annual-report-international-merchandise-trade-statistics-philippines>

¹⁶ FitchRatings. (12 July 2021). Fitch Revises Philippines' Outlook to Negative; Affirms at 'BBB'. Retrieved from <https://www.fitchratings.com/research/sovereigns/fitch-revises-philippines-outlook-to-negative-affirms-at-bbb-12-07-2021>

¹⁷ Philippine Statistics Authority. (10 August 2021). GDP posted double digit growth of 11.8 percent in the second quarter of 2021, the highest since fourth quarter of 1988. Retrieved from <https://psa.gov.ph/national-accounts>

¹⁸ Asian Development Bank. (n.d.). Economic indicators for the Philippines. Retrieved from <https://www.adb.org/countries/philippines/economy>



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INTRODUCTION

The year 2020 has proven to be challenging on many fronts, mainly due to the global phenomena that is the COVID-19 pandemic. Indeed, the fiscal and monetary sectors play a key role in this picture, with the implementation of measures aimed at managing the risks, mitigating the shocks, and adapting to the disruptions caused by the health crisis.

In terms of **monetary and financial policies**, the Bangko Sentral ng Pilipinas (BSP) led some of the government's key efforts to cushion the impact of the pandemic to financial institutions, other businesses, and individuals.¹ Reductions on the overnight reverse repurchase rate² as well as reserve requirements³ have been made, which encouraged continued financial activities by banks, businesses, and consumers.

Additionally, the BSP provided the National Government provisional advances totaling to PHP 540 billion in October. Prior to this, emergency bridge financing through a PHP 300 billion repurchase agreement was extended.⁴

For the financial sector, the Philippines saw a continued upward trend of its resources, at PHP 24.31 trillion in 2020, from PHP 22.93 trillion in 2019. Banks remain to have the lion's share, which contributed PHP 20.03 trillion or around 82% of the total.⁵

As for the banking system's total loan portfolio, real estate activities accounted for the biggest share at 18.8%, followed by wholesale and retail trade at 11.2%, loans for household consumption also at 11.2%, electricity, gas, steam and air conditioning supply at 9.7%, and manufacturing sector at 9.4%.⁶

On the other hand, as the pandemic has evidently served as a catalyst in fast-tracking the digitalisation of financial services, growth in indicators such as financial inclusion as well as digital banking and payments have likewise been recorded.

In the first half of 2020, the share of digital payments by volume increased to 17% from 14% in the same period of the previous year⁷. Meanwhile, in terms of value, it grew to 25% from 24%.⁸

1 Diokno, B. (June 2021). BSP's Monetary Policies amid the Pandemic and Vision Beyond COVID-19: Journey through Digitalization and Financial Inclusion [Presentation]. 6th Joint Economic Briefing.

2 By 200 basis points from 4% to 2%

3 To 12% from 14%

4 Bangko Sentral ng Pilipinas. (2020). 2020 Annual Report: Central Banking Amid the Pandemic for a Resilient Economy. Retrieved from https://www.bsp.gov.ph/Media_And_Research/Annual%20Report/annrep2020.pdf

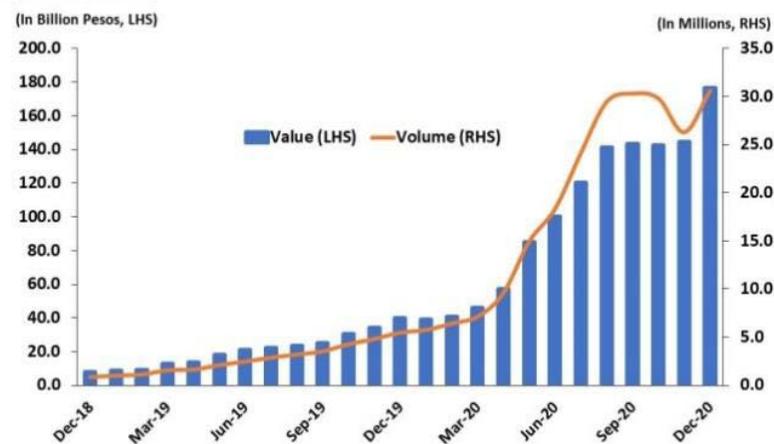
5 BSP. (2021). Total Resources of the Philippine Financial System. Retrieved from <https://www.bsp.gov.ph/statistics/Financial%20System%20Accounts/Table%202022.pdf>.

6 BSP. (2020). Report on the Philippine Financial System, 2nd Semester 2020. Retrieved from https://www.bsp.gov.ph/Lists/Report%20on%20the%20Philippine%20Financial%20System/Attachments/29/StatRep_2Sem2020.pdf.

7 Better than Cash Alliance. (2020). State of Digital Payments in the Philippines: 2019 Update and 2020 Preview. Retrieved from https://btca-production-site.s3.amazonaws.com/documents/611/english_attachments/State_of_Digital_Payments_In_The_Philippines_2019_Update_And_2020_Preview.pdf?1624029619.

8 Ibid.

Figure 18
InstaPay Value and Volume
(For Month Indicated)



Source of data: BancNet

Figure 19
PESONet Value and Volume
(For Month Indicated)



Source of data: Philippine Clearing House Corporation

The BSP also recorded a boom in the utilisation of e-payment services – InstaPay and PESONet. 2020 data show 582.9% and 378.1%, and 203.9% and 121.7% growth in terms of volume and value, respectively.⁹

The country likewise welcomed four digital banks that applied and received approval for a license,¹⁰ while there is an overall direction for banks to prioritise the digitalisation of their products and services.¹¹ It is also noteworthy that there is a growing optimism among Filipinos, with 60% expressing their willingness to take on digital banking.¹²

In moving forward, the BSP seeks to digitalise a minimum of 50% of total retail payment transaction volume, and onboard at least 70% of Filipino adults to the financial system.¹³ In relation to this, it is likewise interesting to note that the Philippines ranked 8th worldwide and 2nd in Asia¹⁴ in terms of financial inclusion promotion.¹⁵

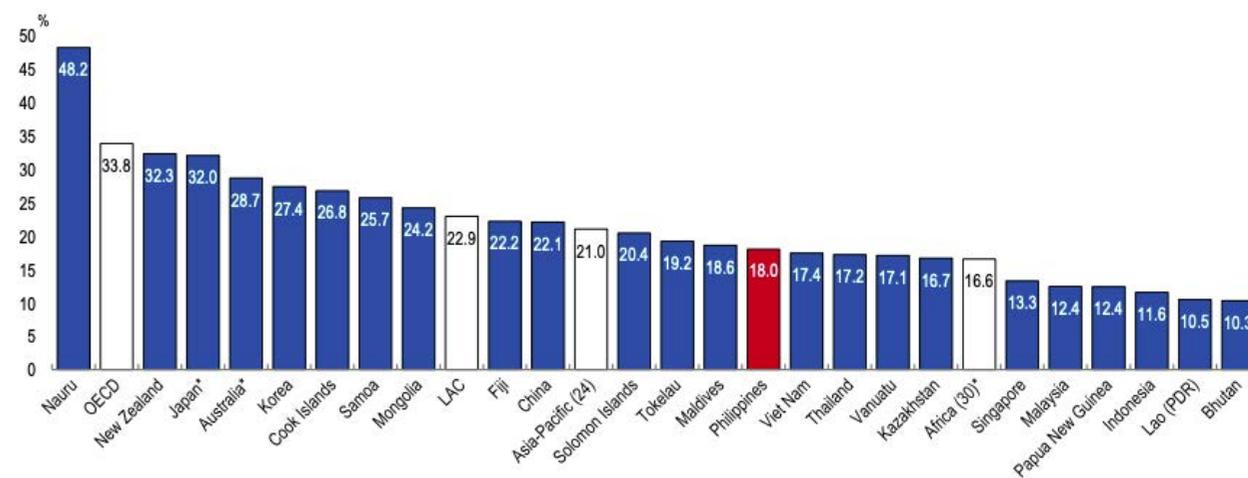
Meanwhile, the **insurance sector** recorded a growth of 2.83% year-on-year, as of September 2020.¹⁶ Latest data shows its growth in terms of account ownership from 18% in 2017, to 23% in 2019.¹⁷ In

for 2020, the total net income of the insurance industry shrank by 8.6% from the previous year, at PHP 41.24 billion from PHP 45.12 billion. Meanwhile, total premiums recorded a conservative growth of 1.18%, from PHP 304.65 billion to PHP 308.25 billion.¹⁸ The micro-insurance is one of its top-performing subsectors, which helps provide means to bridge access to insurance for the unbanked or do not have access to other forms of financial services.¹⁹ The micro-insurance sector recorded an increase to 45 million users as of the first quarter 2020, from 38.9 million users in the same quarter in 2018.²⁰

Aligning with the trend and call of heightened digital innovation, a 2020 survey showed that most or 85% of insurance companies worldwide are likewise working towards digitalising their operations, and 79% are creating new digital business models and services.²¹

Finally, as for the **fiscal sector**, tax effort in 2020 was at 10.67%, from 11.2% in 2019. Collected revenue in 2020 totaled to PHP 1.96 trillion,²² which exceeded the year's target of PHP 1.68 trillion.²³ This is lower than 2019 revenue of PHP 2.19 trillion, which the Department of Finance said can be viewed in the context COVID-19 pandemic, in which the country has suffered economic impacts and recorded a GDP reduction.²⁴

Meanwhile, most recent data report that the country's tax-to-GDP ratio shows a figure lower than both the Asia and Pacific and OECD averages. At 18% in 2019, while it increased from the 17.4% ratio in 2018, it was lower than the regional average by 3%, and the OECD average by 15.8%.²⁵



Furthermore, at the onset of the health crisis, tax filing activities were specifically challenged, especially with the 15 April original deadline of the filing and payment of Annual Income Tax Returns being just a month after the effectivity of lockdown in Metro Manila.²⁶ Due to the mobility restrictions that were

9 BSP. (2020). Report on the Philippine Financial System, 2nd Semester 2020. Retrieved from https://www.bsp.gov.ph/Lists/Report%20on%20the%20Philippine%20Financial%20System/Attachments/29/StatRep_2Sem2020.pdf.

10 Diokno, B. (2021). BSP Webinar on "The Age of Digital Banking". Retrieved from <https://www.bsp.gov.ph/SitePages/MediaAndResearch/SpeechesDisp.aspx?ItemID=822>.

11 BSP. (2021). Banking Sector Outlook Survey: 1st Semester 2021. Retrieved from https://www.bsp.gov.ph/Media_And_Research/PBSOS/PBSOS_1s2021.pdf.

12 IDC. (February 2021). Fintech and Digital Banking 2025 Asia Pacific. Retrieved from http://go.backbase.com/rs/987-MGR-655/images/Backbase_Fintech_%26_Digital_Banking_2025_APAC_2nd_Edition.pdf?utm_source=Organic&utm_medium=Website&utm_campaign=%5BOM%5D%20IDC%202025.

13 BSP. (2020). The BSP Digital Payments Transformation Roadmap 2020-2023. Retrieved from https://www.bsp.gov.ph/Pages/ABOUT%20THE%20BANK/Events/By%20Year/2021/BSP-UP%20Professorial%20Chair%20Lecture%20Series/BSP_2c_iraio_discussion.pdf?ID=2314.

14 Out of 55 countries

15 The Economist Intelligence Unit. (2020). Global Microscope 2020. Retrieved from https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2020/11/EIU_Microscope_2020_161120.pdf.

16 Philippine News Agency. (April 2021). IC processes all money claims, product applications. Retrieved from <https://www.pna.gov.ph/articles/1138375>.

17 BSP. (2020). 2020 Financial Inclusion Initiatives. Retrieved from https://www.bsp.gov.ph/Media_And_Research/Year-end%20Reports%20on%20BSP%20Financial%20Inclusion%20Initiatives/2020/microfinance_2020.pdf.

18

18 Insurance Commission. (2020). Insurance Industry Performance as of the Quarter Ending December 31. Retrieved from <https://www.insurance.gov.ph/wp-content/uploads/2021/05/04-2020-Consolidated-Insurance-Industry-Performance-Report-rev210505.pdf>.

19 According to the BSP, 81.3% of NCR households still do not have bank accounts.

20 BSP. (2020). 2020 Financial Inclusion Initiatives. Retrieved from https://www.bsp.gov.ph/Media_And_Research/Year-end%20Reports%20on%20BSP%20Financial%20Inclusion%20Initiatives/2020/microfinance_2020.pdf.

21 KPMG. (2020). The COVID-19 catalyst: Insurers race to digitize. Retrieved from <https://home.kpmg/xx/en/home/insights/2020/11/the-covid-19-catalyst-insurers-race-to-digitize.html>.

22 Bureau of Internal Revenue. (2021). Revenue Collection. Retrieved from https://www.bir.gov.ph/images/bir_files/research_and_statistics/PSA_RegionalCollection_2020%20BTR.pdf

23 Department of Finance. (January 2021). BIR surpasses revenue targets in 2020, collects 86 percent of tax payments online. Retrieved from <https://www.dof.gov.ph/bir-surpasses-revenue-targets-in-2020-collects-86-percent-of-tax-payments-online/#:~:text=Based%20on%20preliminary%20data%20as,revise%202020%20goal%20of%20P1>.

24 Ibid.

25 Organisation for Economic Co-operation and Development. (2021). Revenue Statistics in Asia and the Pacific 2021 - The Philippines. Retrieved from <https://www.oecd.org/countries/philippines/revenue-statistics-asia-and-pacific-philippines.pdf>.

26 Presidential Communications Operations Office. (2020). Gov't imposes community quarantine in Metro Manila to contain coronavirus. Retrieved from https://pcoo.gov.ph/news_releases/govt-imposes-community-quarantine-in-metro-manila-to-contain-coronavirus/.

imposed, many have called for the extension of the filing period, which was granted by the Bureau of Internal Revenue (BIR). On the other hand, it was encouraged for both filing and payment processes that online channels are utilised. Particularly for payments, recent reports by the BIR show evidence on increased availment of online payment mechanisms.

Out of the total tax collection, the BIR reported that PHP 1.67 trillion were settled via online payment channels.²⁷ Meanwhile, PHP 22.86 million tax returns were recorded in 2020, in which PHP 21.5 million were filed online.

To this end, as the global economy has begun to slowly reopen, these sectors remain crucial in the continuing efforts to bounce back, as well as adapting to the disruptions brought about by the global health crisis.

RECENT REFORMS AND INDUSTRY DEVELOPMENTS

With the economic downturn, supply chain interruptions, and productivity issues caused by the health crisis, countries were compelled to introduce and shift to policies that prioritise survival, recovery, and support to affected individuals and enterprises. Many of the policy developments in the fiscal, monetary, and insurance sectors implemented in the past year were put in place with this objective, as well as in line with the provisions in the the *Bayanihan* to Heal as One Act (*Bayanihan*) or **Republic Act (RA) No. 11469**²⁸ and the *Bayanihan* to Recover as One Act (*Bayanihan* II) or **RA No. 11494**²⁹. In addition, while a number of them were already sought for even prior to the pandemic, the country's economic condition became the driver of the hastened enactment of several measures.

Monetary and Financial

- **Memorandum No. 2020-008**³⁰ lays down a number of regulatory relief measures to BSP-supervised financial institutions. Among which include the provision of financial assistance, as well as a 6-month moratorium on monthly payments due to the BSP. Additional relief measures were provided under **Memorandum No. 2020-011**,³¹ such as relaxation of notification requirements on changes to banking hours or temporary closure of bank branches, and an extension of the period of compliance with BSP's supervisory requirements; and under **Memorandum No. 2020-075**³² on the recognition of accrued interest during the 30-day moratorium provided under *Bayanihan* Act as income.
- **Memorandum No. 2020-034**³³ provides relaxation in the credit risk weight of 50% for MSMEs' loans.
- **Memorandum No. 2020-074**³⁴ stipulates the Implementing Rules and Regulations (IRR) and the

Frequently Asked Questions on Section 4(uu) of *Bayanihan* II, which grants a 60-day grace period for the payment of loans, without the imposition of interests, penalties, and other charges. This issuance serves supplementary to the prior-released **Memorandum No. 2020-068**.³⁵

- **Circular No. 1085 s. 2020**³⁶ on Sustainable Finance Framework was issued by the BSP in April 2020 to support and advance the Philippines' sustainability efforts, through incorporating sustainability principles in the corporate governance and risk management frameworks of banks.
- The **Digital Payments Transformation Roadmap 2020-2023**³⁷ was launched in October 2020, which seeks to boost innovations in the country's payments system, as well as increase consumers' confidence in and preference for digital payments, towards the goal of developing an 'efficient, safe, and inclusive payments ecosystem'.
- The BSP issued the Guidelines for the Open Finance Framework through **Circular No. 1122 s. 2021**,³⁸ in its pursuit to empower customers through granting better control over their information. The Circular states that the "Open Finance Framework espouses consent-driven data portability, interoperability, and collaborative partnership among financial institutions and third-party providers".
- BSP **Circular No. 1105 s. 2020**³⁹ was issued following the approval of Resolution No. 1536 by The Monetary Board, which includes 'digital banks' as a classification of banks. The Circular provides guidelines on the establishment of digital banks as a new banking organisation.
- Last June 2020, **House Bill (HB) 6768**⁴⁰ or "An Act Affording More Protection to Consumers of Financial Products and Services" was approved on third and final reading in the House of Representatives. The bill was transmitted to and received by the Senate, in which a number of Bills have been filed and referred to the Committee on Banks, Financial Institutions and Currencies. The BSP has expressed support for this measure, towards the protection of consumers in the conduct of online transactions.⁴¹
- In February 2021, the House of Representatives approved **HB No. 7749**⁴² on its third and final reading. The Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery or GUIDE Bill seeks to strengthen the government and financial institutions' capacity to extend assistance to the micro, small and medium enterprises.
- **HB No. 8991**⁴³ or the Bank Deposits Secrecy Bill proposes amendments to RA No. 1405 or the Bank Secrecy Act. The bill proposes the relaxation of bank secrecy provisions, such that the list of exemptions in pursuing the confidentiality of deposits has been expanded to include BSP's exercise of inquiry and examination. The Bill, as of March, is in the Period of Sponsorship.
- The Congress has also been undertaking deliberations on proposals to institutionalise and develop digital payments for financial transactions through **HB No. 8992**⁴⁴ and **Senate Bill (SB) No. 1764**.⁴⁵ HB No. 8992 was passed in the Lower Chamber in March 2021, while its Senate counterpart bill is pending.
- Further amendments to the Anti-Money Laundering Act was also made through **RA No. 11521**⁴⁶

27 DOF. (January 2021). BIR surpasses revenue targets in 2020, collects 86 percent of tax payments online. Retrieved from <https://www.dof.gov.ph/bir-surpasses-revenue-targets-in-2020-collects-86-percent-of-tax-payments-online/#:~:text=Based%20on%20preliminary%20data%20as,revise%202020%20goal%20of%20P1>.

28 Official Gazette. (March 2020). Republic Act No. 11469. Retrieved from <https://www.officialgazette.gov.ph/2020/03/24/republic-act-no-11469/>.

29 Official Gazette. (September 2021). Republic Act No. 11494. Retrieved from <https://www.officialgazette.gov.ph/downloads/2020/09sep/20200911-RA-11494-RRD.pdf>.

30 BSP. (March 2020). Memorandum No. M-2020-008. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/m008.pdf>.

31 BSP. (March 2020). Memorandum No. M-2020-011. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/m011.pdf>

32 BSP. (September 2020). Memorandum No. M-2020-075. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/m075.pdf>.

33 BSP. (April 2020). Memorandum No. M-2020-034. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/m034.pdf>.

34 BSP. (September 2020). Memorandum No. M-2020-074. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/m074.pdf>.

35 BSP. (September 2020). Memorandum No. M-2020-068. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/m068.pdf>.

36 BSP. (April 2020). Circular No. 1085 Series of 2020. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/c1085.pdf>.

37 BSP. (October 2020). BSP Digital Payments Transformation Roadmap 2020-2023. Retrieved from https://www.bsp.gov.ph/Media_And_Research/Primers%20Faq/Digital%20Payments%20Transformation%20Roadmap%20Report.pdf.

38 BSP. (June 2021). Circular No. 1122 Series of 2021. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2021/1122.pdf>.

39 BSP. (2020). Circular No. 1105 Series of 2020. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2020/c1105.pdf>.

40 House of Representatives. (2021). House Bill No. 6768 Third Reading Copy. Retrieved from https://congress.gov.ph/legisdocs/third_18/HBT6768.pdf

41 Diokno, B. (July 2021). BSP Supports Immediate Passage of Financial Consumer Protection Law. Retrieved from <https://www.bsp.gov.ph/SitePages/MediaAndResearch/MediaDisp.aspx?Itemid=5864>.

42 House of Representatives. (2021). House Bill No. 7749 Third Reading Copy. Retrieved from https://congress.gov.ph/legisdocs/third_18/HBT7749.pdf.

43 House of Representative. (2021). Committee Report No. 861. Retrieved from https://congress.gov.ph/legisdocs/first_18/CR00861.pdf.

44 House of Representatives. (2021). House Bill No. 8992 Third Reading Copy. Retrieved from https://congress.gov.ph/legisdocs/third_18/HBT8992.pdf.

45 Philippine Senate. (2021). Senate Bill No. 1764. Retrieved from <https://legacy.senate.gov.ph/lisdata/3332830163!>.pdf.

46 Official Gazette. (2021). Republic Act No. 11521. Retrieved from <https://www.officialgazette.gov.ph/2021/01/29/republic-act-no-11521/>.

signed in January 2021. The law stipulates that real estate developers and brokers, as well as offshore gaming operators, including their service providers, are to report covered and suspicious transactions to the Anti-Money Laundering Council (AMLC). The amendments also included additional unlawful activities, and grants the AMLC the power to issue freeze orders. This was followed by the BSP's issuance of **Circular Letter Nos. 2021-023**⁴⁷ and **2021-056**.⁴⁸

- The Financial Institutions Strategic Transfer or FIST Act was signed into law as **RA No. 11523**,⁴⁹ which states that banks and other financial institutions may offload their non-performing assets and loans to Financial Institutions Strategic Transfer Corporations (FISTC). Its IRR was later released by the BSP as **Circular No. 1117 s. 2021**.⁵⁰
- **Executive Order No. 144**⁵¹ was signed to establish the country's Financial Stability Coordination Council (FSCC) which is composed of the Bangko Sentral ng Pilipinas, Department of Finance, Securities and Exchange Commission, Insurance Commission, and Philippine Deposit Insurance Corporation. The FSCC is tasked to formulate a Macroprudential Policy Strategy Framework towards promoting stability of the country's financial system.

Insurance

- With the adoption of the Financial Reporting Standards Council of the Revised Conceptual Framework for Financial Reporting on June 2018, the effectivity of the **International Financial Reporting Standards (IFRS) 17** on Insurance Contracts is to be implemented by January 2023.⁵² The Insurance Commission has reported to have started the preparations in transitioning to the new set of accounting standards and processes.⁵³
- **CL No. 2020-70**⁵⁴ issues guidelines on the use of digital payments in the conduct of insurance transactions. An amendment to a number of provisions under this issuance were later introduced through **CL No. 2020-88**.⁵⁵
- **CL No. 2020-95**⁵⁶ provided a two-month moratorium for the payment of life insurance premiums and pre-need installments.
- **CL No. 2020-109**⁵⁷ stipulates the guidelines on the institutionalisation of the remote selling initiatives for insurance products.
- **CL No. 2021-11**⁵⁸ issues the guidelines on the adoption of a regulatory sandbox framework for financial technology innovations for health maintenance organizations and pre-need companies.
- **CL No. 2021-27**⁵⁹ imposes new rates and new rating structure for the catastrophe risk policies of non-life insurance policies.

47 BSP. (March 2021). Circular Letter No. CL-2021-023. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2021/CL-2021-023.pdf>.

48 BSP. (July 2021). Circular Letter No. CL-2021-056. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2021/CL-2021-056.pdf>.

49 Official Gazette. (February 2021). Republic Act No. 11523. Retrieved from <https://www.officialgazette.gov.ph/downloads/2021/02feb/20210216-RA-11523-RRD.pdf>

50 BSP. (2021). Circular No. 1117 Series of 2021. Retrieved from <https://www.bsp.gov.ph/Regulations/Issuances/2021/1117.pdf>.

51 Official Gazette. (July 2021). Executive Order No. 144. Retrieved from <https://www.officialgazette.gov.ph/downloads/2021/07jul/20210706-EO-144-RRD.pdf>.

52 Philippine Institute of Certified Public Accountants. (n.d.). Preface to Philippine Financial Reporting Standards. Retrieved from http://www.picpa.com.ph/frsc.html?article=Philippine%20Financial%20Reporting%20Standards&page=FRSC&main_menu=PFRSs.

53 PNA. (May 2021). Insurance firms gear up for new accounting standard. Retrieved from <https://www.pna.gov.ph/articles/1142100>.

54 IC. (June 2020). CL No. 2020-70. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2020/06/CL2020_70.pdf.

55 IC. (August 2020). CL No. 2020-88. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2020/08/CL2020_88.pdf.

56 IC. (October 2020). CL No. 2020-95. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2020/10/CL2020_95.pdf.

57 IC. (November 2020). CL No. 2020-109. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2020/11/CL2020_109.pdf.

58 IC. (February 2020). CL No. 2021-11. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2021/02/CL2021_11.pdf.

59 IC. (April 2021). CL No. 2021-27. Retrieved from https://www.insurance.gov.ph/wp-content/uploads/2021/04/CL2021_27.pdf.

Fiscal and Taxation

- The tax-related Revenue Regulations (RR) implemented by the BIR in line with RA Nos. 11469 and 11494 include:
 - **RR No. 6-2020**⁶⁰ implementing the tax (value-added, excise, donor's and other fees) exemption on importation and donation of healthcare products for COVID-19 treatment.
 - **RR No. 7-2020**⁶¹ extends the deadlines and timelines for the filing and submission of documents and payments of taxes. Several amendments have been made to certain provisions in this RR, as implemented by **RR Nos. 10-2020**⁶² **11-2020**,⁶³ and **12-2020**.⁶⁴
 - **RR Nos. 16-2020**⁶⁵ **27-2020**⁶⁶ suspend the due dates in the application of VAT-refund or claim.
 - **RR Nos. 5-2020**⁶⁷ and **32-2020**⁶⁸ adjust the statutory deadlines for the filing and submission of documents, and paying of taxes, on the Tax Amnesty for Delinquencies.
- **RR No. 34-2020**⁶⁹ provides the guidelines for the submission of BIR Form No. 1709, Transfer Pricing Documentation and other documents. This aims to strengthen the BIR's transfer pricing risk assessment and audit functions.
- As a pandemic response measure, **RA No. 11525**⁷⁰ or the COVID-19 Vaccination Program Act of 2021 was passed in February 2021. In accordance with its provisions, the BIR published **RR No. 1-2021**⁷¹ which grants tax incentives and fee privileges on activities in relation to COVID-19 vaccines, from its procurement, importation, donation, storage, transport, deployment, to administration.
- The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act or **RA No. 11534**⁷² was signed into law on 26 March 2021. Among the salient provisions of this Act are as follows:
 - Reduction of corporate income tax rate rates to 20% for larger corporations and 25% for smaller enterprises, as implemented by **RR No. 5-2021**.⁷³
 - Expansion of the functions of the Fiscal Incentives Review Board (FIRB) to include review and dis/approval of granting fiscal incentives.
 - Requires projects and activities to be listed under the Strategic Investment Priority Plan to be eligible for incentives and grants an additional 2-year sunset provision, which provides a longer transition period for firms that are currently registered under Philippine Investment Promotion Agencies.

60 Official Gazette. (March 2020). Revenue Regulations No. 6-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%20No.%206-2020.pdf.

61 BIR. (March 2020). Revenue Regulations No. 7-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%20No.%207-2020.pdf.

62 BIR. (April 2020). RR No. 10-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%20No.%2010-2020.pdf.

63 BIR. (April 2020). RR No. 11-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/Revenue%20Regulations%20No.%2011-2020.pdf.

64 BIR. (May 2020). RR No. 12-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/Revenue%20Regulations%20No.%2012-2020.pdf.

65 BIR. (June 2020). RR No. 16-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%20No.%2016-2020.pdf.

66 BIR. (October 2020). RR No. 27-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%20No.%2027-20-202020.pdf.

67 BIR. (March 2020). RR No. 5-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%205-2020_copy.pdf.

68 BIR. (December 2020). RR No. 32-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%20No.%2032-2020.pdf.

69 BIR. (December 2020). RR No. 34-2020. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202020/RR%20No.%2034-2020%20v2_copy.pdf.

70 Official Gazette. (February 2021). Republic Act No. 11525. Retrieved from <https://www.officialgazette.gov.ph/downloads/2021/02feb/20210226-RA-11525-RRD.pdf>.

71 BIR. (April 2021). Revenue Regulations No. 1-2021. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202021/RR%20No.%201%20-%202021.pdf.

72 BIR. (2021). Republic Act No. 11534. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_2/RMCs/2021%20RMCs/RMC%20No.%2042-2021%20RA%20No.%2011534.pdf.

73 BIR. (April 2021). Revenue Regulation No. 5-2021. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202021/RR%20No.%205%20-%202021.pdf.

- Through **RR No. 4-2021**,^{74,75} sale and importation of prescription drugs and medicines for diabetes, high cholesterol, hypertension, cancer, mental illness, tuberculosis, and kidney diseases were implemented. The sale and importation of pharmaceutical and medical device products for the use of COVID-19 treatment have also been exempted from VAT.
- **RR No. 7-2021**⁷⁶ implements revised excise tax rates on alcohol products including distilled spirits, wines, and fermented liquors, as well as tobacco products and vapor products.
- **RR No. 15-2021**⁷⁷ defers the implementation of RR No. 09-2021 until an amendatory revenue regulations is issued. **RR No. 9-2021**⁷⁸ imposed a 12% value-Added Tax (VAT) on transactions previously taxed at zero percent (0%) VAT. This covers a number of sub-categories under export sales, and sale of services and use or lease of properties.
- **RA No. 11569**⁷⁹ was signed in June 2021, which extends the availment period for the Tax Amnesty Program for two more years, or until 14 June 2023.
- Corresponding to the third Package of the Corporate Tax Reform Program,⁸⁰ **HB No. 4664**⁸¹ was approved on third reading in November 2019, while it is currently pending in the Senate.^{82,83} Among the salient points on this measure are to rationalise the process of valuation of, and to establish a single valuation base for taxation of real property.
- Meanwhile, as for the fourth Package on passive income and financial intermediary, **HB No. 304**⁸⁴ hurdled third reading in 2019, while committee hearings have been conducted⁸⁵ at the Senate level. This policy proposal seeks to unify the tax rates on passive income, as well as reduce the number of final withholding tax rates on interest income, among others.
- **HB No. 8942**,⁸⁶ a bill that seeks to ease processes for taxpayers by granting the fulfillment of taxpayer's obligations without the need for physical appearance, was approved in second reading in September 2021.⁸⁷



74 BIR. (April 2021). RR No. 4-2021. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202021/RR%20No.%204%20-%202021.pdf.

75 Amendments to several provisions have been laid out in the later-issued RR No. 8-2021, https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202021/RR%20No.%208-2021.pdf

76 BIR. (May 2021). RR No. 7-2021. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202021/RR%20No.%207-2021.pdf.

77 BIR. (July 2021). RR No. 15-2021. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202021/RR%20No.%2015-2021.pdf.

78 BIR. (June 2021). RR No. 9-2021. Retrieved from https://www.bir.gov.ph/images/bir_files/internal_communications_1/Full%20Text%20RR%202021/RR%20No.%209-2021.pdf.

79 Official Gazette. (June 2021). Republic Act No. 11569. Retrieved from <https://www.officialgazette.gov.ph/downloads/2021/05may/20210630-RA-11569-RRD.pdf>.

80 DOF. (n.d.). What is the Comprehensive Tax Reform Program?. Retrieved from <https://taxreform.dof.gov.ph/>.

81 House of Representatives. (2019). House Bill No. 4664. Retrieved from https://congress.gov.ph/legisdocs/third_18/HBT04664.pdf.

82 Senate Bill Nos. 246, 519, 894

83 Philippine Senate. (2021). Notice of Public Hearing: Real Property Valuation Reform. Retrieved from http://legacy.senate.gov.ph/18th_congress/ctte_notices/Ways_July13.pdf.

84 House of Representatives. (2019). House Bill No. 304 Third Reading Copy. Retrieved from https://congress.gov.ph/legisdocs/third_18/HBT0304.pdf.

85 Cayetano, P. (February 2020). Pia welcomes wide support for PIFITA. Retrieved from http://legacy.senate.gov.ph/press_release/2020/0212_cayetano1.asp.

86 House of Representatives. (March 2021). Committee Report No. 826. Retrieved from https://congress.gov.ph/legisdocs/first_18/CR00826.pdf.

87 Cervantes, F. (September 2021). Bill on ease of paying taxes hurdles 2nd reading. Retrieved from <https://www.pna.gov.ph/articles/1152719>.

ADVOCACY RECOMMENDATIONS

1. Fast-track Senate Concurrence of the Foreign Account Tax Compliance Act

The Foreign Account Tax Compliance Act (FATCA) was adopted in March 2010 with the goal of improving compliance with the United States tax regulations. This requires all non-US financial institutions, referred to as Foreign Financial Institutions or FFIs,⁸⁸ to report relevant information on financial accounts held by US persons to the US Internal Revenue Service (IRS).⁸⁹

Five years later, on July 13, 2015, an Inter-Governmental Agreement (IGA) Model 1A⁹⁰ was signed by the Philippines and the US, which provides for the Philippine financial institutions' (PFIs) submission of relevant information on accounts of US people to the BIR.

In December 2016, the FATCA was ratified by President Duterte, and was transmitted to the Philippine Senate for concurrence.⁹¹ As of 4 June 2019, it remains pending in the Committee of Foreign Relations.⁹² It was explained by the BIR, however, that the "FATCA reporting will not take place until the PH- US FATCA IGA has been concurred in by the Philippine Senate and has entered into force."

Recognizing the benefits that its development will bring about, the ECCP recommends the concurrence of the FATCA at the soonest possible time. The complete adoption and implementation of the FATCA will strengthen the country's compliance with international tax policies, and leverage its position in terms of addressing financial crimes, and promoting a transparent and effective reporting system.

2. Implement Amendments to the Bank Secrecy Law

The increasing complexity in and growing accessibility of financial services necessitates reinforced security in order to combat financial crimes and boost users' confidence in conducting transactions.

The Philippine banking system is considered as one of the most restrictive in the world given its strict policy on bank secrecy.⁹³ While progress has been made over the past years, including the recent enactment of amendments to the Anti-Money Laundering Act, there remains work to be done to realize the country's strengthened commitment to exercise transparency in the combat of domestic and international financial crimes. In fact, in 2021, the Philippines has been included in the grey list⁹⁴ of the Financial Action Task Force.⁹⁵

While we acknowledge the BSP's earlier statement that the effective implementation of measures on anti-money laundering and counter-terrorism financing are of primary priority to remove the country from the grey list,⁹⁶ we likewise note its recognition that easing the bank secrecy policies will significantly support in achieving the objectives of the Anti-Money Laundering and Anti-Terrorism Laws.⁹⁷

88 e.g. banks, investment entities, custodians, and insurance companies

89 BIR (2016). BIR Advisory on FATCA. Retrieved from https://www.bir.gov.ph/images/bir_files/international_tax_affairs/faq%200628.pdf.

90 US Department of the Treasury. (2015). Agreement between the Government of the United States of America and the Government of the Republic of the Philippines to Improve International Tax Compliance and to Implement FATCA. Retrieved from <https://www.treasury.gov/resource-center/tax-policy/treaties/Documents/FATCA-Agreement-Philippines-7-13-2015.pdf>.

91 BIR (2017). FATCA Advisory 4. Retrieved from <https://www.bir.gov.ph/index.php/international-tax-matters/fatca.html>.

92 Philippine Senate. (June 2019). Treaties/Agreement Submitted for Concurrence by the Senate. Retrieved from http://legacy.senate.gov.ph/17th_congress/treaties_17thcongress.asp.

93 According to the BSP in an 11 February House Committee on Banks and Financial Intermediaries Hearing, the strict bank secrecy rules of the Philippines and Lebanon have been identified by the International Monetary Fund to hinder anti-money laundering efforts. The latter, however, already passed a law lifting its bank secrecy rules for one year, and is looking into repealing it completely.

94 Refers to "Jurisdictions under Increased Monitoring" or externally, "grey list". Implies that the country has committed to resolving identified strategic deficiencies along with agreed-upon timeline and is subject to enhanced surveillance.

95 Financial Action Task Force. (June 2021). Jurisdictions under Increased Monitoring - June 2021. Retrieved from <https://www.fatf-gafi.org/publications/high-risk-and-other-monitored-jurisdictions/documents/increased-monitoring-june-2021.html>.

96 Noble, L. (April 2021). Diokno says easing bank secrecy not a must to exit FATF 'gray list'. Retrieved from <https://www.bworldonline.com/diokno-says-easing-bank-secrecy-not-a-must-to-exit-fatf-gray-list/>.

97 Anti-Money Laundering Council. (2020). Republic Act No. 10168. Retrieved from <http://www.amlc.gov.ph/laws/terrorism->

For this reason, we highly recommend amending the country's Bank Secrecy Law,⁹⁸ which prohibits persons and government officials or offices to examine deposits with banks or banking institutions in the country. It is our view that easing such provision will leverage the country's ability to intensify surveillance against crimes such as money laundering, fraud, tax evasion, and other illegal financial transactions. This will also further uphold the BSP's mandate on financial supervision towards promoting a sound and stable banking system, as well as the country's commitment to comply with international standards on transparency. Ultimately, this will create positive effects in terms of heightening people and investor protection, alongside promoting trust and confidence in the country's financial system.

In line with this, the ECCP also acknowledges the recognition of such policy by the Philippine government, notably including the Department of Finance⁹⁹ and Bangko Sentral ng Pilipinas,¹⁰⁰ and stands committed to supporting this agenda.

3. Efficient Implementation of the CREATE Act and Further Reduction of Corporate Income Tax rate

At the core of the Chamber's work is to contribute to providing a level playing field for local and foreign investors in the Philippines, alongside enhancing its competitiveness. On this note, we fully recognize the critical role that fiscal regimes play in improving the country's position as a business destination, as well as its overall economic development.

It is in this regard that we laud the passage of the CREATE Act this 2021, which has been among the ECCP's advocacy priorities for the past years. With its enactment into law, there now becomes a more definite perception on the business climate in the Philippines, which then results in putting an end on investors' uncertainty in terms of doing business in the country.

With its provision on the reduction of corporate income tax rate, this measure is seen to improve the country's competitiveness and attractiveness to investors. On this note, however, the ECCP strongly recommends the further reduction of corporate income tax rate to 20% for all corporations, regardless of size, so it can be at par with the current rates in Cambodia, Thailand, and Vietnam.¹⁰¹

We also welcome the implementation of a longer transition period for businesses to enjoy fiscal incentives. This provision will allow corporations to maximise their cash reserves as they continue to operate and recover from the effects of the pandemic. Additionally, this may also mean preventing job losses, which can then further support the Filipino workforce, as well as the country's overall socio-economic development.

Meanwhile, the ECCP maintains that the existence of a competitive incentives regime is one of the fundamental elements that make a country more investor-friendly. For this reason, the ECCP likewise recognises the efforts of the Philippine government on the rationalisation of fiscal incentives, which will be uniform among the various investment agencies in the Philippines. With the development of the Strategic Investments Priority Plan, we look forward to the identification and further development of the priority sectors that will truly leverage the Philippines' competitive advantage in the region.

To this end, the ECCP stands ready to continue engaging with the government and relevant stakeholders in ensuring the efficient and effective implementation of the CREATE Act towards achieving the objective of a sound fiscal framework, economic recovery and development.

financing/2015-10-16-02-51-58.

98 The LawPhil Project. (n.d.). Republic Act No. 1405. Retrieved from https://www.lawphil.net/statutes/repacts/ra1955/ra_1405_1955.html.

99 DOF. (March 2020). DOF ready to work with Congress on AMLA, Bank Secrecy Law amendments. Retrieved from <https://www.dof.gov.ph/dof-ready-to-work-with-congress-on-aml-bank-secrecy-law-amendments/>.

100 Diokno, B. (March 2021). Philippine Banking System: Transforming for Economic Recovery [Speech]. Joint Foreign Chambers of the Philippines Forum "The Philippine Financial Sector: Policy Perspectives and Trends".

101 Singapore 17%; Cambodia 20%; Thailand 20%; Vietnam 20%; Lao PDR 24%; Malaysia 24%; Indonesia 25%



ASSESSMENT OF 2019 RECOMMENDATIONS

RECOMMENDATION	COMPLETED / SUBSTANTIAL PROGRESS	SOME PROGRESS	NO PROGRESS / RETROGRESSION
Fast-track Senate Concurrence of the Foreign Account Tax Compliance Act			The FATCA was ratified in December 2016. It remains pending in the Senate Foreign Relations Committee for concurrence, as of June 2019.
Lift or Amend the Bank Secrecy Law			While there has been various recognitions from international organizations, Philippine government policy makers, and other stakeholders on the importance of easing the country's bank secrecy rules, the enactment of amendments to the Bank Secrecy Law remains to be seen.
Enact the Tax Amnesty Package	<p>The Tax Amnesty Act was signed into law in February 2019 as Republic Act No. 11213.</p> <p>More recently, last June 2021, President Duterte signed Republic Act No. 11569 which is the extension law for the implementation of the Estate Tax Amnesty Program for two more years.</p>		
Establish a different tax treatment for metallic and non-metallic minerals		Legislative measures that have sought for the imposition of mining taxes have progressed in the Lower Chamber. The current proposal imposes new tax rates for metallic mining operations.	
Faster reduction of the Corporate Tax and retention of Incentives	The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was signed into law in March 2021. This provides for the implementation of reduced corporate income tax, and as well as the granting of incentives to businesses across various sectors, as aligned under the Strategic Investment Priority Plan.		



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