

# **Fiscal Sustainability in the Philippines: A Literature Review on Elevated Post-Pandemic National Government Debt, Fiscal Deficits, and Durable Revenue Capacity**

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## **Abstract**

This literature review examines the extent to which Philippine fiscal sustainability is threatened by elevated post-pandemic National Government debt, persistent fiscal deficits, and limited durable revenue capacity. Using 2021 as the baseline for pandemic-era fiscal expansion, the review analyzes Philippine government fiscal reports, CPBRD budget analysis, the IMF 2025 Article IV Consultation, and AMRO's 2025 Annual Consultation Report. The review finds that the Philippines does not currently face an immediate fiscal crisis, as National Government debt remains serviceable and supported by a relatively prudent debt profile, including domestic borrowing, fixed-rate instruments, and medium- to long-term maturities. However, fiscal sustainability remains conditional and vulnerable to medium-term risks. Elevated debt constrains fiscal space, persistent deficits prolong borrowing requirements, and limited durable revenue capacity weakens the government's ability to consolidate without compressing productive expenditure. The review argues that revenue capacity is the most structural vulnerability, while growth underperformance is the key stress trigger. Overall, Philippine fiscal sustainability is threatened to a moderate but manageable extent, depending on whether the government can sustain growth, implement credible revenue reforms, control debt-service pressures, and convert post-pandemic recovery into a durable fiscal path.

**Keywords:** Philippine fiscal sustainability; National Government debt; fiscal deficits; revenue capacity; IMF; AMRO; public finance

## **Research Question**

To what extent is Philippine fiscal sustainability threatened by elevated post-pandemic National Government debt, persistent fiscal deficits, and limited durable revenue capacity?

### **1. Introduction**

Fiscal sustainability refers to a government's ability to maintain its spending, borrowing, and debt-servicing obligations without creating an excessive debt burden, undermining macroeconomic stability, or limiting its future capacity to fund public needs. In the Philippine context, this issue became more urgent after the COVID-19 pandemic, when the government expanded borrowing and spending to finance emergency response, social protection, and economic recovery. By 2021, the National Government fiscal deficit had reached one of its highest pandemic-era levels, while the NG debt-to-GDP ratio had moved close to or above the commonly referenced 60% benchmark (Development Budget Coordination Committee, *FY 2021 Annual Fiscal Report* 2). This 60% benchmark should not be treated as a mechanical solvency boundary where debt suddenly becomes unsustainable, but as a fiscal-risk indicator that requires closer analysis of debt dynamics, debt servicing, durable revenue capacity, and growth assumptions (Development Budget Coordination Committee, *Medium-Term Fiscal Framework* 4).

This literature review focuses on the Philippines' post-pandemic fiscal sustainability path, using 2021 as the baseline year for pandemic-era fiscal expansion and examining fiscal consolidation targets and projections up to 2030. It does not provide a year-by-year account of all Philippine fiscal policy decisions from 2021 to 2030. Instead, it examines how recent Philippine government reports and international assessments interpret the country's debt, deficit, durable revenue capacity, and macroeconomic assumptions after the pandemic shock. The review focuses specifically on national government fiscal sustainability, rather than monetary policy, trade policy, poverty reduction, or the full national budget. It also uses official and institutional reports available within the reviewed source set, especially Philippine fiscal documents, the IMF 2025 Article IV Consultation, and AMRO's 2025 Annual Consultation Report. Later macroeconomic outturns are not used as primary evidence unless explicitly stated. It also does not evaluate every individual government program, but considers whether the broader fiscal path appears sustainable. Accordingly, unless otherwise stated, debt figures in this review refer primarily to National Government debt rather than general government debt, public sector debt, or external debt. This distinction is necessary because most Philippine fiscal reports use NG debt-to-GDP as the main fiscal sustainability indicator, while broader debt concepts may include additional government units or public entities.

The central research question guiding this review is: **To what extent is Philippine fiscal sustainability threatened by elevated post-pandemic National Government debt, persistent fiscal deficits, and limited durable revenue capacity?** In this review, “elevated post-pandemic debt” refers to the accumulation of nominal NG debt and the persistence of the NG debt-to-GDP ratio near or above post-pandemic fiscal benchmarks, rather than a claim that the debt-to-GDP ratio has risen continuously every year. This question is important because fiscal sustainability is not only about whether the government can repay its debts. It also concerns whether the government can preserve enough fiscal space to invest in infrastructure, education, health, climate resilience, and social protection. If debt-servicing costs rise too quickly, or if revenue growth fails to keep pace with spending needs, the government may face pressure to cut productive expenditure, increase taxes abruptly, or rely on further borrowing.

This review examines four main indicators. First, it considers National Government debt (NG debt), particularly the debt-to-GDP ratio, debt composition, maturity structure, and debt-servicing burden. Second, it examines fiscal deficits, focusing on whether the government’s consolidation path is realistic after the pandemic-era deficit expansion. Third, it analyzes durable revenue capacity, including tax performance, non-tax revenues, and the durability of recent revenue reforms. Fourth, it considers macroeconomic assumptions, especially the role of economic growth in keeping debt sustainable. Philippine government reports generally argue that debt remains manageable under favorable conditions, but they also acknowledge tensions around delayed debt reduction, recalibrated deficit targets, one-off revenue gains, and vulnerability to growth shocks.

The review is organized into four sections. First, it establishes the conceptual framework for assessing fiscal sustainability, including NG debt-to-GDP, fiscal deficits, primary balance, durable revenue capacity, gross financing needs, debt servicing, and the interest-growth differential. Second, it reviews Philippine government reports, which generally present fiscal sustainability as manageable but conditional. Third, it compares these findings with international assessments from institutions such as the IMF and AMRO. Finally, it synthesizes the main areas of agreement and disagreement in the literature, arguing that Philippine fiscal sustainability is not an immediate crisis but a risk-sensitive and conditional achievement that depends on sustained growth, durable revenue expansion, disciplined deficit reduction, and effective use of public borrowing.

## **2. Conceptual Framework**

### **2.1 Defining Fiscal Sustainability and Debt Scope**

Fiscal sustainability refers to the ability of a government to meet its present and future spending, borrowing, and debt-servicing obligations without causing NG debt to rise uncontrollably, forcing severe fiscal adjustment, or undermining long-term economic stability. This review distinguishes between several debt concepts. National Government debt refers to the obligations of the central/national government and is the main debt measure used in Philippine fiscal reports such as the MTFE, Annual Fiscal Reports, Bureau of the Treasury reports, Fiscal Risk Statements, and CPBRD budget briefs (Development Budget Coordination Committee, *Medium-Term Fiscal Framework 3*; Development Budget Coordination Committee, *FY 2024 Annual Fiscal Report 91*). General government debt is broader because it consolidates other government units, depending on statistical classification. Public sector debt may be wider still if it includes public corporations and other public entities. External debt refers only to debt owed to non-residents and should not be treated as equivalent to total government debt. Therefore, unless otherwise stated, this review focuses on National Government debt, while using general government or external debt figures only when the source explicitly provides them. This broader understanding is important for the Philippines because the post-pandemic fiscal challenge is not only whether the government can repay its debt, but whether it can do so while still funding infrastructure, education, health, climate resilience, and social protection.

### **2.2 Solvency, Liquidity, and Fiscal Space**

Fiscal sustainability also involves three related but distinct concepts: solvency, liquidity, and fiscal space. Solvency refers to whether the government can meet its obligations over the long term without an explosive debt path. Liquidity refers to whether the government can meet near-term financing needs, including refinancing maturing obligations. Fiscal space refers to the government's remaining capacity to finance development priorities or respond to shocks without undermining debt sustainability. A country may remain solvent while still experiencing reduced fiscal space if debt-service costs absorb a growing share of revenues.

### **2.3 Debt-to-GDP, Fiscal Deficits, and Primary Balance**

The first key indicator is the NG debt-to-GDP ratio, which measures National Government debt relative to the size of the economy. A higher NG debt-to-GDP ratio does not automatically mean that the country is fiscally unsustainable, because a growing economy can carry a larger debt stock. However, debt becomes more concerning when it remains persistently elevated, declines more slowly than planned, or creates rising debt-servicing costs. The commonly referenced 60% benchmark should therefore be treated as a fiscal-risk benchmark rather than a mechanical crisis threshold. In the

Philippine case, the debt-to-GDP ratio is central because the government's original Medium-Term Fiscal Framework targeted a return to below 60% of GDP by 2025, but later projections delayed this adjustment (Development Budget Coordination Committee, *Medium-Term Fiscal Framework* 3, 22–23). The 2024 Annual Fiscal Report notes that the updated fiscal program now targets an NG debt-to-GDP ratio below 60% by 2029, while the CPBRD observes that debt remained elevated at 60.7% in 2024 and had reached 63.1% by the second quarter of 2025 (Development Budget Coordination Committee, *FY 2024 Annual Fiscal Report* 91; Congressional Policy and Budget Research Department 4–5).

The second indicator is the fiscal deficit, which occurs when government expenditures exceed revenues within a given year. Deficits are not inherently harmful, especially during crises, recessions, or periods of high public investment. In the Philippine case, higher deficits after the COVID-19 pandemic were partly used to finance emergency response, recovery measures, and infrastructure spending. However, persistent deficits become a threat to fiscal sustainability when they require continuous borrowing and prevent debt from stabilizing. The Medium-Term Fiscal Framework was created after the pandemic to restore fiscal health through improved revenue mobilization, more efficient spending, and a high-growth trajectory, but the government later acknowledged that the original targets were too optimistic under changing global and domestic conditions.

A related concept is the primary balance, which is the fiscal balance excluding interest payments on existing debt. This matters because it shows whether the government's current revenues are sufficient to cover current spending before the cost of past borrowing is included. A country may appear able to manage its overall deficit, but if it continues to run a large primary deficit, its debt stock may keep rising. The CPBRD's framework is especially useful here because it applies debt sustainability analysis by examining the debt-to-GDP ratio, its drivers, and the debt-stabilizing primary balance. It argues that the government's primary deficit must not exceed approximately -2.0% of GDP in order to prevent the debt-to-GDP ratio from rising over the medium term (Congressional Policy and Budget Research Department 5). In simplified debt dynamics, the change in the debt-to-GDP ratio can be expressed as:

$$\Delta d \approx [(r - g) / (1 + g)]d_{t-1} - pb$$

where  $d$  is the debt-to-GDP ratio,  $r$  is the effective nominal interest rate on government debt,  $g$  is nominal GDP growth, and  $pb$  is the primary balance as a share of GDP, with a primary surplus treated as positive. In simplified terms, the debt ratio rises when the interest burden on existing debt and the primary deficit exceed the growth effect from nominal GDP expansion. Therefore, even an elevated debt ratio can stabilize if growth remains strong and the primary deficit narrows, while a moderate

debt ratio can become risky if growth slows, interest rates rise, or primary deficits persist. The equation is expressed in nominal terms; when sources discuss real GDP growth and real effective interest rates, the same intuition applies as long as inflation is treated consistently.

#### **2.4 Durable Revenue Capacity, Debt Servicing, and Gross Financing Needs**

The third major indicator is durable revenue capacity, or the government's ability to generate sufficient, reliable, recurring, and broad-based income. Limited durable revenue capacity refers not only to weak collections in a given year, but to the state's ability to generate recurring, buoyant revenues without excessive reliance on temporary non-tax inflows or politically uncertain reforms. This includes revenue effort, measured as total revenues as a share of GDP; tax effort, measured as tax revenues as a share of GDP; tax buoyancy, or the responsiveness of tax revenues to economic growth; administrative capacity in tax collection and enforcement; and the breadth of the tax policy base, including VAT, excise taxes, incentives, mining taxation, and digital services taxation. This distinction is important because not all revenue improvements are equally sustainable. Permanent tax reforms and stronger tax administration create durable fiscal capacity, while one-off non-tax revenues may improve the fiscal balance temporarily without strengthening the government's long-term position. This is relevant to the Philippines because the MTFF identifies improved revenue mobilization as one of the central strategies for restoring fiscal health, while later government reports continue to stress the importance of robust revenue mobilization and warn that revenue underperformance could increase financing requirements.

The fourth indicator is debt servicing, especially interest payments as a share of government revenue and expenditure. Debt may be technically sustainable if the government can repay it, but it can still weaken fiscal capacity if interest payments consume a growing share of public resources. This creates a crowding-out effect, where more money is allocated to past borrowing rather than current development priorities. The CPBRD highlights this risk clearly, noting that interest payments are projected to consume 14.3% of total government expenditure and 19.1% of total government revenues in FY 2026 (Congressional Policy and Budget Research Department 4–5). This suggests that the threat of debt is not only the size of the debt stock itself, but the pressure it creates on the annual budget. Beyond the debt stock, gross financing needs also matter because the government must finance both the current deficit and maturing obligations. A high NG debt-to-GDP ratio with long maturities and a large domestic-currency component is less risky than the same ratio with short maturities and high foreign-currency exposure. Therefore, the Philippine debt profile reduces some rollover and exchange-rate risks, but persistent deficits and large amortization requirements can still keep financing needs elevated. This is why debt servicing, amortization, borrowing composition, and maturity structure must be assessed alongside the debt-to-GDP ratio.

The fifth and most important dynamic concept is the interest-growth differential, which compares the effective interest rate on government debt with the growth rate of the economy. NG debt is easier to sustain when economic growth is higher than the effective interest rate on government debt, because the economy's capacity to generate income expands faster than the cost of borrowing. Conversely, if growth slows or interest rates rise, the debt burden becomes harder to manage. This is why fiscal sustainability depends not only on fiscal policy but also on macroeconomic assumptions. The FY 2025 Fiscal Risk Statement states that favorable macroeconomic performance and adherence to fiscal consolidation commitments anchored debt sustainability, with real GDP growth exceeding the real effective interest rate in 2023 (Development Budget Coordination Committee, *Fiscal Risk Statement 2025* 36). However, it also warns that weaker-than-expected growth poses the greatest threat to the debt trajectory because it reduces revenues, increases borrowing pressure, and directly raises the debt-to-GDP ratio (Development Budget Coordination Committee, *Fiscal Risk Statement 2025* 36–40).

## **2.5 Analytical Framework for the Review**

This framework therefore evaluates Philippine fiscal sustainability through six connected questions. First, is NG debt stabilizing relative to GDP? Second, are fiscal deficits narrowing enough to reduce borrowing needs? Third, is the primary balance consistent with debt stabilization? Fourth, is revenue growth durable, broad-based, and buoyant rather than dependent on temporary gains? Fifth, are gross financing needs and debt-service costs likely to reduce fiscal space? Sixth, are growth, interest-rate, and macroeconomic assumptions strong enough to keep the debt path stable? These questions directly address the research question by linking elevated post-pandemic NG debt, persistent deficits, and limited durable revenue capacity to the broader issue of fiscal sustainability.

Using this framework, the review treats Philippine fiscal sustainability as conditional rather than absolute. The country may remain fiscally sustainable under favorable conditions: strong economic growth, manageable interest rates, disciplined deficit reduction, and successful revenue reforms. However, sustainability becomes more threatened if debt remains elevated, deficits decline more slowly than planned, revenue gains prove temporary, interest payments absorb a larger share of the budget, or growth assumptions fail to materialize. Therefore, the framework does not judge fiscal sustainability by one indicator alone. It assesses whether the interaction between debt, deficits, revenues, debt servicing, and growth creates a stable fiscal path or exposes the Philippines to future fiscal pressure.

### **3. Philippine Government Reports**

Philippine government reports generally frame the country's fiscal sustainability as manageable but conditional. Across the Medium-Term Fiscal Framework (MTFF), Annual Fiscal Reports, Fiscal Risk Statements, Bureau of the Treasury materials, and CPBRD budget analysis, the dominant government narrative is that the Philippines is not facing an immediate fiscal crisis. However, the tone differs by institution. Executive-branch reports such as the MTFF, Annual Fiscal Reports, Fiscal Risk Statements, and BTr materials generally emphasize resilience, fiscal consolidation, and prudent debt management (Development Budget Coordination Committee, *Medium-Term Fiscal Framework 6*; Bureau of the Treasury 13). By contrast, the CPBRD Budget Brief provides a more cautious legislative research perspective, focusing on delayed consolidation, debt-service pressures, and the risk that revised targets may weaken fiscal credibility. Overall, executive-branch reports present fiscal sustainability as achievable through gradual fiscal consolidation, sustained economic growth, improved revenue mobilization, and prudent debt management. However, these same reports also show that sustainability is not guaranteed. The country's post-pandemic fiscal position remains pressured by elevated National Government debt, slower deficit reduction, rising debt-service costs, and reliance on favorable growth and revenue assumptions.

#### **3.1 Post-Pandemic Baseline and the MTFF Response**

The 2021 Annual Fiscal Report provides the baseline for understanding the post-pandemic fiscal challenge. In 2021, the National Government deficit reached almost ₱1.7 trillion, 21.8% higher than the 2020 fiscal gap, while the NG debt-to-GDP ratio rose to 60.5% from 54.6% the previous year (Development Budget Coordination Committee, *FY 2021 Annual Fiscal Report 2*). These figures refer to National Government debt and borrowing, not to general government debt, public sector debt, or external debt. The report explains this increase in the context of economic recovery from the pandemic, noting that the government had to finance a large budget deficit while maintaining support for recovery measures. It also shows that borrowing was heavily domestic, with a 78:22 domestic-to-foreign borrowing mix in 2021 (Development Budget Coordination Committee, *FY 2021 Annual Fiscal Report 13*). This matters because the Philippine fiscal problem did not begin as a conventional debt crisis, but as a pandemic-induced expansion of borrowing and spending that narrowed fiscal space and raised the debt burden.

The government's main response to this fiscal strain was the Medium-Term Fiscal Framework, first adopted in 2022 and later updated through 2030. The MTFF Midterm Update explicitly states that fiscal space narrowed after the COVID-19 pandemic because of weak revenue growth and heavy borrowing for pandemic-related measures (Development Budget Coordination Committee, *Medium-Term Fiscal Framework 3*). It presents the government's fiscal strategy as a three-pronged

approach: improved revenue mobilization, enhanced public spending efficiency, and sustained high growth (Development Budget Coordination Committee, *Medium-Term Fiscal Framework 3*). The original MTFF aimed to reduce the deficit-to-GDP ratio to 3.0% by 2028 and bring the NG debt-to-GDP ratio below 60% by 2025 (Development Budget Coordination Committee, *Medium-Term Fiscal Framework 3*). However, the Midterm Update acknowledges that these targets became increasingly unrealistic because of weaker global recovery, geopolitical shocks, inflationary pressures, delayed tax measures, mandatory expenditures, and continued development spending needs (Development Budget Coordination Committee, *Medium-Term Fiscal Framework 4*).

### **3.2 Recalibrated Consolidation Path**

This revision is central to the literature because it reveals the first major tension in the government's own position. On one hand, the government insists that fiscal consolidation remains on track. On the other hand, it has had to slow the pace of consolidation. The MTFF Midterm Update argues that recalibration is necessary to keep fiscal policy realistic and growth-enhancing rather than excessively contractionary. In this framing, slower consolidation is not a failure but an adjustment to changed conditions. The updated framework therefore aims to preserve fiscal sustainability while allowing the government to continue funding infrastructure, health, education, agriculture, social welfare, and other priority sectors.

The FY 2024 Annual Fiscal Report supports this more moderate government position. It states that the MTFF remains the guiding framework for macro-fiscal stability and medium-term fiscal sustainability, even though it does not function as a legally binding fiscal rule (Development Budget Coordination Committee, *FY 2024 Annual Fiscal Report 91*). The updated targets approved by the DBCC extend the fiscal program to 2030 and aim for 6.5%–7.0% real GDP growth annually from 2026 to 2030, a 3.1% deficit-to-GDP ratio by 2030, and an NG debt-to-GDP ratio below 60% by 2029 (Development Budget Coordination Committee, *FY 2024 Annual Fiscal Report 91*). This shows that the government's fiscal sustainability strategy depends heavily on a gradual rather than rapid return to pre-pandemic fiscal conditions.

However, the CPBRD Budget Brief No. 4 offers a more cautious domestic perspective. Unlike executive-branch reports, which tend to frame recalibration as flexibility, the CPBRD describes the revised deficit path as a “clear departure” from the original MTFF consolidation path (Congressional Policy and Budget Research Department 2). It notes that the original MTFF expected the deficit to fall to 3.0% of GDP by 2028 and the NG debt-to-GDP ratio to fall below 60% by 2025, assuming real GDP growth of 6.5% to 8.0% (Congressional Policy and Budget Research Department 2). Under the revised DBCC projections, however, the deficit target for 2025 was raised to 5.5% of GDP, while the

2028 target was adjusted upward to 4.3% (Congressional Policy and Budget Research Department 2). This reinforces that the issue is not a simple upward trend in the debt ratio, but a delayed return to the government’s intended NG debt path. The CPBRD emphasizes that meeting even these revised targets remains contingent on achieving government growth assumptions.

<b>Indicator</b>	<b>Original MTFF target/assumption</b>	<b>Revised target/latest figure</b>	<b>Implication</b>
<b>NG debt-to-GDP</b>	Below 60% by 2025	Below 60% by 2029; 60.7% in 2024; 63.1% by Q2 2025	Debt reduction delayed
<b>Deficit-to-GDP</b>	3.0% by 2028	4.3% by 2028; 3.1% by 2030	Consolidation slower than originally planned
<b>Growth assumption</b>	6.5%–8.0% from 2023 to 2028	6.0%–7.0% in revised government assumptions; lower IMF/AMRO projections for 2025–2026	Fiscal path depends heavily on growth
<b>Revenue strategy</b>	Improved revenue mobilization under MTFF	Continued reliance on tax reforms, administration, and some non-tax revenues	Durability of revenue gains remains central

Source: Author’s synthesis based on DBCC/MTFF updates, FY 2024 Annual Fiscal Report, CPBRD Budget Brief No. 4, IMF 2025 Article IV Consultation, and AMRO 2025 Annual Consultation Report.

The table shows that the government’s fiscal strategy has not been abandoned, but its timeline has become less ambitious. This supports a conditional interpretation of sustainability: the fiscal path remains feasible under baseline assumptions, but the margin for error has narrowed.

### 3.3 National Government Debt and Debt-Servicing Pressures

National Government debt is the second major area of agreement and tension. Government reports generally argue that the NG debt profile remains manageable because the Philippines relies heavily on domestic borrowing, maintains a large share of medium- and long-term debt, and uses prudent debt-management strategies to limit exposure to foreign exchange and interest-rate shocks (Bureau of the Treasury 6–7, 13). The FY 2025 Fiscal Risk Statement describes national government debt as “eminently sustainable,” arguing that favorable interest-growth dynamics and continued fiscal adjustment support medium-term debt reduction (Development Budget Coordination Committee, *Fiscal Risk Statement 2025* 36). It also states that prudent debt management helps reduce risks from market volatility and large amortizations.

Still, the debt level remains elevated. CPBRD notes that national government debt reached ₱11.7 trillion, or 60.4% of GDP, in 2021, breaching the 60% threshold for the first time since 2004. Debt later remained above this level: 60.9% in 2022, 60.1% in 2023, 60.7% in 2024, and 63.1% by the second quarter of 2025 (Congressional Policy and Budget Research Department 4). Thus, the strongest interpretation is not that the NG debt-to-GDP ratio has risen continuously every year, but that it has remained persistently elevated after the pandemic while debt reduction has been delayed. Yet, this complicates the government’s optimistic framing because the issue is not merely whether debt is technically repayable. The issue is whether debt remains persistently elevated long enough to constrain fiscal space and increase vulnerability to shocks. The FY 2026 Fiscal Risks Statement strengthens this conditional interpretation. It projects NG debt to peak at 61.7% of GDP in FY 2026 before gradually declining under the baseline, suggesting that debt remains sustainable under current fiscal policy settings (Development Budget Coordination Committee, *Fiscal Risks Statement 2026* 37). However, it also warns that the debt trajectory remains sensitive to growth shocks and real interest-rate increases. In the report’s simulated growth shock, a sharp slowdown from 5.5% to 0.9% could push the debt-to-GDP ratio to around 70.0% (Development Budget Coordination Committee, *Fiscal Risks Statement 2026* 37). This shows that Philippine fiscal sustainability depends heavily on the macroeconomic assumptions behind the baseline, rather than on the debt ratio alone.

Debt servicing sharpens this concern. CPBRD argues that debt-service expenditures continue to consume a substantial portion of the government budget. For FY 2026, total debt service is projected at ₱2.0 trillion, including ₱950.0 billion in interest payments and ₱1.1 trillion in principal amortization (Congressional Policy and Budget Research Department 4). Interest payments are projected to consume 14.3% of total government expenditure and 19.1% of total government revenues in FY 2026 (Congressional Policy and Budget Research Department 4). This suggests that the threat to fiscal sustainability is not only the debt-to-GDP ratio itself, but the growing fiscal burden of servicing

debt. Even if the Philippines avoids a debt crisis, rising interest payments can reduce the resources available for productive spending on infrastructure, education, health, climate resilience, and social protection.

### **3.4 Durable Revenue Capacity and Fiscal Risks**

Durable revenue capacity is the third major issue. Government reports present revenue mobilization as the central solution to fiscal consolidation. The MTFF identifies improved revenue mobilization as one of the main strategies for rebuilding fiscal health, while the Fiscal Risk Statement highlights tax administration reforms, digitalization, the Ease of Paying Taxes law, VAT on non-resident digital service providers, excise taxes, and mining fiscal reforms as measures expected to strengthen revenue generation (Development Budget Coordination Committee, *Medium-Term Fiscal Framework* 3). The FY 2025 Fiscal Risk Statement projects total revenues to rise from ₱3.824 trillion in 2023 to ₱6.250 trillion by 2028, or from 15.7% to 17.0% of GDP. (Development Budget Coordination Committee, *Fiscal Risk Statement 2025* 32).

Yet this optimism is weakened by two problems. First, several revenue measures have faced delays or political resistance, which the MTFF Midterm Update itself acknowledges. Second, some recent revenue gains depend on non-recurring sources rather than durable tax capacity. The MTFF notes that revenue performance from 2022 to 2024 improved partly because of economic reopening and stronger tax compliance, but also because of non-tax receipts such as BTr investment income, dividend remittances, PPP concession fees, and fund balance transfers from PhilHealth and PDIC (Development Budget Coordination Committee, *Medium-Term Fiscal Framework* 13). This distinction matters because temporary revenue windfalls can improve a fiscal year's balance without permanently strengthening the government's ability to finance long-term obligations.

The final and most important assumption across government reports is continued economic growth. The government's fiscal sustainability narrative depends on the idea that GDP growth will remain strong enough to reduce the debt burden over time. The FY 2025 Fiscal Risk Statement explicitly states that favorable macroeconomic performance and adherence to fiscal consolidation commitments anchor debt sustainability, with real GDP growth in 2023 exceeding the real effective interest rate (Development Budget Coordination Committee, *Fiscal Risk Statement 2025* 36). This favorable interest-growth differential supports debt consolidation because the economy grows faster than the real cost of debt.

However, the same Fiscal Risk Statement identifies weaker-than-expected growth as the greatest threat to the debt trajectory. Slower growth would weaken revenue collection, increase pressure on priority

spending, raise borrowing requirements, and directly increase the debt-to-GDP ratio by reducing the denominator. It also warns that revenue and expenditure risks remain, including tax collection underperformance, normalization of customs collections, higher interest payments, the military and uniformed personnel pension system, and decentralization pressures (Development Budget Coordination Committee, *Fiscal Risk Statement 2025* 11–40). This means the government’s own risk analysis confirms that fiscal sustainability depends heavily on assumptions that may not fully materialize. The Fiscal Risk Statements also widen the sustainability issue beyond the headline deficit and NG debt ratio. Several contingent or quasi-fiscal pressures could worsen fiscal balances even if the baseline consolidation path appears manageable. These include military and uniformed personnel pension obligations, LGU devolution pressures following the Mandanas-Garcia ruling, GOCC-related risks, PPP contingent liabilities, natural disasters and climate-related spending, health and social protection pressures, and possible revenue losses from tax incentives or revenue-eroding exemptions (Development Budget Coordination Committee, *Fiscal Risks Statement 2026* 57–92). These risks matter because they can increase expenditure or reduce revenues without immediately appearing in the headline debt path, thereby weakening fiscal space over the medium term.

### **3.5 Synthesis of Philippine Government Reports**

Overall, Philippine government reports do not present fiscal sustainability as an immediate crisis, but neither do they prove that the fiscal path is secure. The executive-branch documents, especially the MTFE and Fiscal Risk Statements, emphasize resilience, prudent debt management, and the possibility of restoring fiscal space through growth and revenue reforms. The FY 2024 Annual Fiscal Report reinforces this by extending the fiscal targets to 2030 and presenting the MTFE as the guiding framework for medium-term sustainability. However, the CPBRD brief provides a more critical domestic reading, highlighting that fiscal consolidation has slowed, NG debt remains near or above the 60% benchmark, and debt-service costs are taking up a larger share of revenue and expenditure.

Therefore, the Philippine government literature presents a baseline-consistent but risk-sensitive view: fiscal sustainability is manageable under baseline assumptions, but vulnerable under stress conditions. The government’s strategy can work if growth remains strong, revenue reforms are implemented, borrowing remains prudently managed, and deficits gradually decline. However, sustainability is threatened if growth weakens, tax reforms are delayed, revenue gains prove temporary, or debt-service costs continue to crowd out productive spending. In relation to the research question, the Philippine reports suggest that elevated post-pandemic NG debt, persistent fiscal deficits, and limited durable revenue capacity do threaten fiscal sustainability, but not yet to the point of crisis. The threat is conditional, medium-term, and highly dependent on whether the government can convert its fiscal consolidation plans into durable revenue growth and disciplined expenditure management.

## **4. IMF and AMRO: External Surveillance Assessments and Risk Qualification**

### **4.1 Comparability and Role of External Surveillance**

IMF and AMRO assessments are broadly consistent with the Philippine government's baseline view that fiscal sustainability remains manageable, but they attach stronger qualifications regarding implementation credibility, revenue durability, growth realism, and shock exposure. Philippine government documents, especially the MTFF, Annual Fiscal Reports, Fiscal Risk Statements, and BTr materials, emphasize resilience: NG debt remains sustainable under baseline assumptions, borrowing is prudently managed, revenue reforms are underway, and gradual fiscal consolidation remains possible. IMF and AMRO do not overturn this baseline, but they test whether the assumptions behind it are sufficiently credible.

A comparability caveat is necessary. IMF fiscal projections may follow IMF/GFS definitions that differ from Philippine cash-based fiscal reporting, particularly in the treatment of privatization receipts, equity, net lending, and some expenditure classifications (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 4). Therefore, this section compares the direction and analytical interpretation of fiscal trends rather than treating all headline deficit figures from Philippine government reports, CPBRD, IMF, and AMRO as perfectly interchangeable.

The role of these external surveillance institutions is therefore to shift the analysis from whether the Philippines appears fiscally sustainable under baseline projections to whether the conditions supporting that sustainability are durable enough: credible consolidation, recurring revenue mobilization, realistic growth assumptions, efficient public spending, and resilience to external, governance, and climate-related shocks.

### **4.2 IMF: Low Sovereign Stress Risk, but Fiscal Space Must Be Rebuilt**

The IMF's 2025 Article IV assessment does not suggest that the Philippines faces an immediate fiscal crisis. It assesses sovereign stress risk as low and projects NG debt to decline gradually toward about 60% of GDP by 2030, provided fiscal consolidation continues (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 4, 46). This broadly aligns with the Philippine government's view that debt remains manageable under baseline assumptions. However, the IMF is more explicit that fiscal space must still be rebuilt after the pandemic-era expansion of borrowing and spending. The IMF's rationale for consolidation is broader than debt reduction alone: it argues that medium-term consolidation would rebuild fiscal buffers, reduce gross financing needs, limit crowding-out risks, and support external balance (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 26–27).

This is important because the IMF separates solvency risk from fiscal-space risk. The Philippines may be able to continue servicing NG debt, but that does not mean the fiscal position is unconstrained. Elevated post-pandemic NG debt, debt-service obligations, and persistent deficits can still limit the government's ability to respond to shocks or finance development priorities. In this sense, the IMF

supports the review’s central argument: the main concern is not immediate inability to service debt, but the medium-term narrowing of fiscal space.

The IMF’s latest published communication reports growth of 5.1% in 2025 and 5.6% in 2026, revised downward after weaker-than-expected third-quarter performance (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 1–2). This matters for fiscal sustainability because both figures are below the stronger growth assumptions embedded in the government’s medium-term fiscal path, narrowing the margin for debt and deficit reduction.<sup>1</sup>

### **4.3 IMF: Consolidation Credibility Depends on Durable Tax Measures**

The IMF’s first major contribution is its emphasis on the credibility of the fiscal framework. Philippine government reports emphasize targets: narrowing the deficit, returning the NG debt-to-GDP ratio below the 60% benchmark, and improving revenue mobilization under the MTFE. The IMF accepts the direction of these targets but places more weight on whether they are supported by concrete tax and expenditure measures, stronger public financial management, and credible fiscal institutions (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 26–27).

The IMF’s concern is not simply that the Philippines has a fiscal deficit, but that consolidation may become expenditure-led if new tax policy measures are not implemented. The Article IV report notes that, absent new tax measures, staff projections assume that part of the 2027–2028 consolidation would be achieved largely through lower spending (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 26–27). This directly reinforces the central risk identified in this review: limited durable revenue capacity can force the government to choose between continued borrowing and compression of priority expenditure.

This matters because fiscal consolidation is not automatically growth-enhancing. A consolidation path supported by recurring revenue gains can reduce deficits while protecting infrastructure, education, health, climate resilience, and social protection. By contrast, consolidation achieved mainly through spending restraint may improve the fiscal balance in the short term but weaken long-term growth if it compresses productive expenditure. Therefore, the IMF reframes the Philippine fiscal issue from “Can the government reduce the deficit?” to “Can the government reduce the deficit through credible and growth-sensitive measures?”

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<sup>1</sup> Some tables and narrative sections in the Article IV package reflect earlier projections of 5.4% for 2025 and 5.8% for 2026. This review uses the press-release figures when discussing the latest IMF communication, while noting that both projection sets remain below the government’s stronger medium-term assumptions (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 4).

#### **4.4 IMF: Durable Revenue Mobilization as the Core Fiscal Constraint**

The IMF's second major contribution is its sharper distinction between temporary revenue improvement and durable tax mobilization. Philippine government reports recognize revenue mobilization as a central pillar of fiscal sustainability, but they often discuss recurring tax gains, administrative reforms, economic reopening effects, GOCC dividends, PPP concession fees, BTr income, and fund balance transfers within the same broad revenue narrative. The IMF's analysis is more demanding because it focuses on the recurring tax base needed to sustain consolidation over time (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 26–27, 63).

This distinction matters because not all revenue gains have the same fiscal value. Temporary non-tax receipts may improve the deficit in a given year, but they do not permanently strengthen the government's ability to finance debt service and development spending. Durable revenue capacity requires recurring, buoyant, and broad-based revenues supported by tax policy and administrative capacity (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 63). This directly connects to the research question because limited durable revenue capacity is the most structural threat to fiscal sustainability.

The IMF therefore adds a sharper warning than the Philippine government baseline. If durable tax mobilization is delayed or politically constrained, fiscal consolidation may rely excessively on lower expenditure. This would place pressure on the same public investments needed to sustain future growth and revenue capacity. In this sense, revenue weakness is not merely one fiscal risk among many. It is the constraint that determines whether the government can reduce deficits without weakening development priorities.

#### **4.5 AMRO: Stable Near-Term Outlook, but Weaker Growth Assumptions**

AMRO's 2025 assessment presents a stable but more constrained outlook. It projects GDP growth of 5.2% in 2025 and 5.3% in 2026, moderating from 5.7% in 2024 and remaining below the pre-COVID trend (ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 6). This supports the review's argument that the government's fiscal path depends heavily on growth assumptions that may be more difficult to sustain than the baseline suggests.

AMRO's assessment is more nuanced than a simple downgrade. It treats the recent slowdown as partly cyclical, linked to temporary disruptions such as halted infrastructure projects, severe weather, weaker sentiment, and financial volatility (ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 6, 62). At the same time, it argues that the Philippines faces deeper structural constraints that limit potential growth. This distinction matters for fiscal sustainability: cyclical weakness may reverse as project implementation and confidence recover, but structural constraints in infrastructure, productivity, manufacturing depth, and skills would weaken the growth assumptions supporting the fiscal path.

This is where AMRO makes a distinct contribution. Philippine government reports often treat strong growth as an anchor of debt sustainability. AMRO asks whether that growth anchor is secure. If growth underperforms, the NG debt-to-GDP ratio becomes harder to reduce, revenue targets become harder to meet, and deficit reduction becomes more difficult. Therefore, AMRO shifts the analysis from growth as a fiscal assumption to growth as a structural condition that must be actively maintained.

#### **4.6 AMRO: Structural Constraints, Private Investment, and Public Investment Quality**

AMRO's fiscal contribution is not simply that growth may be lower. It also argues that fiscal consolidation must be balanced with continued investment in infrastructure, digitalization, human capital, and climate resilience (ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 16–18). This means fiscal sustainability depends not only on reducing the deficit, but also on protecting the public investments that sustain future growth and revenue capacity.

AMRO focuses on structural constraints that affect investment and productivity, including infrastructure and logistics gaps, uneven project implementation, regulatory bottlenecks, a shallow manufacturing base, high logistics and energy costs, workforce upskilling needs, and emerging productivity pressures in services (ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 13, 24). If private-sector investment and productivity growth remain below what is needed to sustain potential output, the government may face a double burden: supporting growth through public spending while also reducing deficits.

AMRO's emphasis on public investment management is especially relevant because fiscal sustainability depends not only on the amount of public spending, but on whether major infrastructure and climate-resilience projects are selected, procured, implemented, and monitored effectively. Debt is less concerning when borrowing finances investment that raises future output and revenue. Debt is more concerning when public investment is delayed, poorly implemented, or unable to crowd in private-sector activity. AMRO therefore complements the IMF's focus on fiscal credibility by emphasizing the growth and investment conditions needed to make consolidation sustainable. The IMF similarly notes weak FDI and manufacturing indicators as part of near-term growth concerns, but AMRO's distinct emphasis is on private investment, infrastructure quality, productivity, and skills.

#### **4.7 External, Financial, and Climate Risk Channels**

IMF and AMRO also broaden the fiscal sustainability discussion by identifying risk channels beyond the headline NG debt ratio. The IMF points to global trade policy uncertainty, geopolitical tensions, disruptive financial market corrections, governance concerns, and climate shocks as downside risks (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 2). These risks matter fiscally because they can weaken growth, reduce revenues, increase borrowing costs, delay public investment, or raise expenditure needs.

AMRO similarly links fiscal sustainability to external and financial conditions. Exchange-rate depreciation can raise import costs, inflationary pressures, and the burden of foreign-currency-denominated obligations (ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 13). Tighter global financial conditions could raise domestic funding costs and increase pressure on the exchange rate, especially if investor sentiment weakens or global yields rise. These risks do not imply an external debt crisis, but they show that the fiscal path is exposed to global financial conditions and investor sentiment.

Climate risk is especially important for the Philippines because natural disasters can simultaneously damage output, increase public spending needs, weaken revenues, and create pressure for emergency borrowing (Development Budget Coordination Committee, *Fiscal Risks Statement 2026* 82–92; International Monetary Fund, *Philippines: 2025 Article IV Consultation* 2). This reinforces the broader argument of the Fiscal Risk Statements: baseline debt sustainability may remain manageable, but adverse shocks can quickly narrow fiscal space. IMF and AMRO therefore reinforce the conditional view of sustainability by showing how growth, interest rates, exchange rates, governance, and climate events can transmit into fiscal risk.

#### 4.8 Direct Comparison: Philippine Government Reports, IMF, and AMRO

Issue	Philippine Government Reports	IMF	AMRO
<b>Overall fiscal view</b>	Fiscal path remains manageable under baseline assumptions	Low sovereign stress risk, but fiscal space must be rebuilt	Stable outlook, but consolidation is slower than planned
<b>Main emphasis</b>	Targets, resilience, debt management, and fiscal consolidation	Credibility of consolidation and concrete tax/PFM measures	Realism of growth assumptions and structural growth constraints
<b>NG debt</b>	Manageable due to domestic borrowing, fixed-rate debt, and longer maturities	Gradual decline depends on continued consolidation	Fiscal risks remain manageable, but slower consolidation and weaker growth assumptions increase vulnerability to shocks

<b>Deficit</b>	Narrowing, but targets have been recalibrated	Consolidation should continue with credible measures	Consolidation continues but is slower than planned
<b>Revenue</b>	Revenue reforms and administration improvements support consolidation	Durable tax mobilization is essential	Lower revenue ratios and higher growth-supporting expenditures slow consolidation
<b>Growth</b>	Strong growth anchors debt sustainability	Growth outlook revised downward; potential growth remains around 6% but downside risks dominate	Growth remains above 5%, but below pre-COVID trend and structurally constrained
<b>Adjustment quality</b>	Consolidation and development spending are treated as compatible	Priority spending should be protected through tax and PFM reforms	Consolidation should be balanced with infrastructure and human capital investment
<b>Risk channels</b>	Fiscal Risk Statements acknowledge macroeconomic, contingent liability, and disaster risks	Emphasizes global, governance, and climate-related downside risks	Emphasizes external, financial, investment, and productivity risks

Source: Author's synthesis based on Philippine government fiscal reports, IMF 2025 Article IV Consultation, and AMRO 2025 Annual Consultation Report.

This comparison shows that the IMF and AMRO qualify the Philippine government baseline rather than overturn it. They accept that fiscal sustainability remains manageable under current assumptions, but they place greater weight on the credibility of consolidation, durability of revenues, realism of growth projections, quality of public spending, and exposure to external shocks.

#### **4.9 Section Synthesis: What IMF and AMRO Add to the Literature**

The IMF and AMRO strengthen the review's central argument by showing that Philippine fiscal sustainability depends less on the 60% NG debt-to-GDP benchmark alone and more on the credibility of the assumptions behind the fiscal path. Both institutions broadly support the view that the Philippines does not face acute fiscal distress, but they identify different vulnerabilities. The IMF focuses on fiscal credibility: consolidation must be backed by concrete tax and expenditure measures, durable revenue mobilization, stronger public financial management, and protection of priority spending. AMRO focuses on the growth foundation of sustainability: consolidation must proceed while addressing infrastructure gaps, investment constraints, productivity challenges, skills upgrading, and climate resilience.

Together, these assessments show that elevated post-pandemic NG debt, persistent deficits, and limited durable revenue capacity become most threatening when they interact with weaker growth, rising debt-service costs, external shocks, governance problems, or climate-related spending pressures. Debt is not yet an acute solvency risk, but it narrows fiscal space. Deficits are not yet uncontrollable, but they prolong borrowing needs. Revenue capacity has not collapsed, but its durability determines whether consolidation can occur without compressing productive expenditure.

Therefore, the IMF and AMRO move the literature beyond a simple debt-threshold discussion. Their main contribution is to show that Philippine fiscal sustainability is a conditional achievement: it remains manageable under baseline assumptions, but its stability depends on credible consolidation, durable tax mobilization, efficient public investment, and sustained growth.

### **5. Synthesis**

#### **5.1 The Literature Converges on One Core Finding: Sustainability Is Manageable but Conditional**

Across Philippine government reports, the IMF, and AMRO, the literature broadly agrees that the Philippines is not facing an immediate fiscal crisis (Development Budget Coordination Committee, *Fiscal Risk Statement 2025* 36; International Monetary Fund, *Philippines: 2025 Article IV Consultation* 4, 46; ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 6). National Government debt remains serviceable, the government continues to access financing, the NG debt profile is partly protected by domestic borrowing, fixed-rate instruments, and medium- to long-term maturities. Philippine government reports emphasize this resilience most strongly, especially through the MTFF and Fiscal Risk Statements, which frame fiscal sustainability as achievable through gradual consolidation, revenue mobilization, spending efficiency, and sustained growth. The MTFF Midterm Update identifies improved revenue mobilization, enhanced spending efficiency, and a high-growth trajectory as the government's central strategy for preserving long-term fiscal sustainability.

The risks identified in the literature are not equal in weight. Limited durable revenue capacity is the most structural threat because it determines whether the government can reduce deficits without

compressing growth-enhancing expenditure. Persistent fiscal deficits are the main transmission mechanism because they prolong borrowing requirements and delay the rebuilding of fiscal space. Elevated post-pandemic NG debt is primarily a fiscal-space constraint rather than an immediate solvency crisis. Growth underperformance is the key stress trigger because it weakens revenue collection, worsens the debt-to-GDP denominator, and makes deficit reduction more difficult.

However, the same body of literature also shows that this sustainability is conditional rather than secure. The Philippines' fiscal position depends on several assumptions: that economic growth remains strong, interest rates remain manageable, revenue reforms produce durable gains, and the government successfully reduces deficits without cutting productive spending too aggressively. This means the country's fiscal sustainability is not best understood as either "safe" or "unsustainable." Rather, it exists in a middle position: currently manageable, but vulnerable if baseline assumptions weaken.

## **5.2 Elevated Post-Pandemic NG Debt Threatens Sustainability Mainly Through Fiscal Space, Not Immediate Solvency**

The first part of the research question concerns elevated post-pandemic National Government debt. The literature suggests that Philippine NG debt is not yet unsustainable in a narrow solvency sense, but it does threaten fiscal sustainability by reducing fiscal space. The 2021 Annual Fiscal Report establishes the post-pandemic baseline: National Government borrowing increased sharply because the government had to finance emergency response, recovery measures, and a large fiscal deficit (Development Budget Coordination Committee, *FY 2021 Annual Fiscal Report 2*, 13). The MTFE Midterm Update similarly states that fiscal space narrowed after the pandemic because of weak revenue growth and heavy borrowing for pandemic-related measures.

The main concern is that the NG debt-to-GDP ratio has remained near or above the 60% benchmark for several years. This benchmark should be interpreted as a fiscal-risk indicator, not as a mechanical solvency boundary. The CPBRD notes that the original MTFE expected debt to fall below 60% by 2025, but this target was later pushed back as fiscal consolidation slowed. This does not automatically signal a crisis, especially because NG debt is largely domestically financed and prudently managed. But it does mean that the government has less room to respond to future shocks without borrowing even more.

The deeper threat is debt servicing. If interest payments absorb a growing share of revenue, the government may remain solvent while still losing fiscal flexibility. This is where CPBRD's contribution is especially important: it emphasizes that debt sustainability should not be judged only by whether debt can be repaid, but by how much of the budget is increasingly committed to servicing past borrowing. In this sense, debt threatens sustainability less through immediate default risk and more through the crowding out of development spending.

### **5.3 Persistent Fiscal Deficits Are the Main Transmission Mechanism from Debt to Future Risk**

The second part of the research question concerns persistent fiscal deficits. Here, the literature is more clearly cautious. Deficits are not inherently problematic, especially after a crisis like COVID-19, but persistent deficits require continued borrowing. That borrowing adds to the debt stock and delays the restoration of fiscal space.

Philippine government reports show that the deficit has narrowed from pandemic-era levels, but they also show that consolidation is slower than originally planned. The original MTFF aimed to reduce the deficit-to-GDP ratio to 3.0% by 2028, but later government updates acknowledged that this target had become less realistic under changed economic conditions (Development Budget Coordination Committee, *Medium-Term Fiscal Framework 3–4*, 22–23). The CPBRD is more critical, describing the revised path as a clear departure from the original consolidation plan.

This creates an important analytical point: the deficit is not only a fiscal outcome; it is also a test of policy credibility. If the government repeatedly adjusts fiscal targets upward, then markets and institutions may begin to question whether consolidation is truly durable. The IMF and AMRO do not argue that Philippine deficits are uncontrollable, but both emphasize that consolidation must continue and must be supported by credible measures. Therefore, persistent deficits threaten fiscal sustainability because they extend the period in which the government depends on borrowing and favorable growth conditions.

### **5.4 Limited Durable Revenue Capacity Is the Most Structural Threat**

The third part of the research question concerns limited durable revenue capacity. This is arguably the most important long-term threat because revenue determines whether the government can consolidate without damaging development spending.

Philippine government reports present revenue mobilization as the solution to fiscal pressure. The MTFF is built partly on improved revenue mobilization, and the Fiscal Risk Statements highlight tax reforms, digitalization, improved tax administration, and new revenue measures. But the literature also shows that recent revenue gains are not all equally durable. Some improvements come from stronger tax collection and economic reopening, while others come from one-off non-tax sources such as dividend remittances, PPP concession fees, and fund balance transfers (Development Budget Coordination Committee, 13). Temporary gains can improve the fiscal balance in a given year, but they do not permanently solve the revenue problem.

This is where the IMF's position is especially significant. The IMF broadly supports fiscal consolidation, but it places heavier emphasis on durable tax mobilization. Its concern is that without stronger recurring revenues, the government may be forced to consolidate through spending restraint instead. That could reduce deficits in the short term but weaken long-term growth if it cuts into infrastructure, education, health, climate resilience, or other productive spending.

Therefore, limited durable revenue capacity is the most structural constraint in the fiscal sustainability path. Debt can remain manageable if the economy grows and revenues expand. Deficits can narrow if revenue growth is strong. But if revenue reforms underperform, then the government faces a difficult trade-off: borrow more, tax more abruptly, or spend less. This makes durable revenue capacity the foundation of fiscal sustainability.

### **5.5 Growth Is the Assumption Holding the Framework Together**

The literature also shows that Philippine fiscal sustainability depends heavily on growth. Government reports rely on a favorable interest-growth differential: if the economy grows faster than the effective interest rate on debt, the debt burden becomes easier to manage over time. This is the central logic behind the government's baseline optimism.

However, both IMF and AMRO are more cautious about growth. The IMF expects growth to slow to 5.1% in 2025 before recovering moderately to 5.6% in 2026, while AMRO projects growth of 5.2% in 2025 and 5.3% in 2026, below the 5.7% growth recorded in 2024 (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 1–2; ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 6). This matters because the government's fiscal targets depend on relatively strong growth. If growth weakens, revenues fall, the debt-to-GDP ratio becomes harder to reduce, and deficit reduction becomes more painful.

AMRO adds an especially important structural warning. It suggests that long-term growth depends on improving private investment, productivity, and the broader growth strategy. This means fiscal sustainability is not only a budget issue. It is also connected to whether the Philippine economy can sustain the growth rates needed to make debt and deficits manageable.

### **5.6 Final Answer to the Research Question**

Taken together, the literature suggests that Philippine fiscal sustainability is exposed to moderate but manageable medium-term risks. Elevated post-pandemic NG debt, persistent deficits, and limited durable revenue capacity create real risks, but the literature does not indicate acute fiscal distress or immediate solvency risk.

The threat is best understood in three levels.

First, NG debt is elevated but manageable under baseline assumptions. The NG debt-to-GDP ratio remains near or above the 60% benchmark, and debt reduction has been delayed, but the debt profile is supported by domestic financing, fixed-rate debt, and longer maturities (Congressional Policy and Budget Research Department 4–5; Bureau of the Treasury 6–7, 13).

Second, deficits are narrowing but too slowly. The government has moved away from its original consolidation path, suggesting that fiscal adjustment is more difficult than initially expected. This makes sustainability dependent on the credibility of the revised targets.

Third, durable revenue capacity is the key vulnerability. Without durable revenue growth, the government may struggle to reduce deficits while maintaining productive spending. Temporary revenue gains cannot substitute for lasting tax capacity.

Therefore, the main finding is:

Philippine fiscal sustainability is not currently threatened by an immediate inability to service National Government debt, but it is threatened by the medium-term interaction of elevated post-pandemic NG debt, persistent fiscal deficits, and uncertain durable revenue capacity. The country's fiscal path remains sustainable under favorable assumptions, especially strong growth, manageable interest rates, credible deficit reduction, and successful revenue reforms. However, if growth slows, revenue reforms underperform, or debt-service costs continue to rise, fiscal sustainability could weaken by reducing fiscal space and limiting the government's ability to finance long-term development priorities.

Thus, the literature shows that Philippine fiscal sustainability is best understood not as a present crisis, but as a conditional fiscal position whose stability depends on whether the government can transform post-pandemic recovery into durable revenue growth, credible deficit reduction, and productive use of public borrowing.

## **6. Conclusion**

This literature review examined the extent to which Philippine fiscal sustainability is threatened by elevated post-pandemic National Government debt, persistent fiscal deficits, and limited durable revenue capacity in the post-pandemic period. Using 2021 as the baseline for pandemic-era fiscal expansion, the review found that the Philippines is not currently facing an immediate fiscal crisis. Across Philippine government reports, IMF assessments, and AMRO analysis, there is broad agreement that NG debt remains manageable under baseline conditions, especially because of the country's domestic borrowing base, prudent debt-management strategy, and still-positive growth outlook (Bureau of the Treasury 6–7, 13; International Monetary Fund, *Philippines: 2025 Article IV Consultation* 4, 46; ASEAN+3 Macroeconomic Research Office, *AMRO Annual Consultation Report* 6).

However, the literature also shows that fiscal sustainability is increasingly conditional. The Philippines' fiscal position depends heavily on continued economic growth, manageable interest rates, durable revenue reforms, and the government's ability to reduce deficits without weakening productive public spending. While government reports emphasize fiscal resilience and gradual consolidation, more cautious sources such as the CPBRD, IMF, and AMRO highlight important vulnerabilities: debt remains elevated, deficit targets have been recalibrated, debt-service costs are absorbing a growing share of public resources, and recent revenue improvements may not be fully durable.

The review therefore concludes that Philippine fiscal sustainability is threatened to a moderate but manageable extent. The threat does not arise from immediate solvency risk, since NG debt remains serviceable and the debt profile is relatively prudent. Rather, the threat arises from the medium-term interaction of elevated post-pandemic NG debt, slower-than-planned deficit reduction, and insufficiently durable revenue mobilization. Among these risks, limited durable revenue capacity is the most structural because it determines whether the government can reduce deficits without compressing growth-enhancing expenditure (International Monetary Fund, *Philippines: 2025 Article IV Consultation* 26–27, 63). Persistent deficits are the main transmission mechanism because they sustain borrowing requirements, while elevated NG debt mainly constrains fiscal space through debt servicing and reduced shock-absorption capacity.

Overall, the Philippines remains fiscally sustainable under baseline assumptions, but the sustainability path is vulnerable to adverse shocks. Maintaining that path requires credible revenue reforms, disciplined but growth-sensitive deficit reduction, control of debt-service pressures, and improvement in the productivity of public spending. The country's fiscal position should therefore be understood not as a present debt crisis, but as a manageable yet risk-sensitive fiscal path whose stability depends on whether post-pandemic recovery can be converted into durable revenue growth, credible consolidation, and more productive use of public borrowing.

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