2015 BUDGET BRIEFER

CONGRESSIONAL POLICY AND BUDGET RESEARCH DEPARTMENT

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FINANCING THE 2015 BUDGET[1]

"The Aquino administration commits to maintain the budget deficit at 2% of GDP……. This level will enable [the government] to balance the need for increased public investments while keeping them within means. [The Executive Department] will pursue reforms to increase revenue collections without burdening the people with additional debt."

The President's Budget Message, FY 2015

REVENUE TARGETS

To support the proposed obligation budget of P2,606 billion for fiscal year 2015, the Development Budget Coordinating Council (DBCC) has set the revenue target at P2,337.3 billion – that is, 15.8% higher than the current year's collection goal of P2,018.1 billion. As a ratio to GDP, the revenue goal is equivalent to 16.5% or 0.8 percentage point higher compared to FY 2014 estimate of 15.7%.

By source, 73.6% or P1,720.8 billion will have to be generated by the Bureau of Internal Revenue (BIR). Of this, around 60% (P1,032.8 billion) will come from income tax while close to 22% (P372.4 billion) will come from sales taxes. Meanwhile, the Bureau of Customs (BOC) is expected to shore up almost 20% (P456.5 billion) of total revenue take. Of this amount, 76% (P347.4 billion) corresponds to VAT on imports. Import duty is targeted at P75.8 billion while excise tax on imports is set at P33.3 billion. Other tax sources include motor vehicle fees, fire code tax, immigration tax, and forest charges. Of the P17.1 billion target for other taxes, 80% or P13.7 billion will come from motor vehicle fees. Taken altogether, it is expected that tax-to-GDP ratio will reach 15.5% - or 0.8 percentage point better than FY 2014 estimate of 14.7%.

Non-tax revenues pertain to collections by the Bureau of the Treasury (BTr), interest income from Bangko Sentral, interest on advances to government-owned-and controlled corporations (GOCCs) and privatization proceeds. Note that the target for non-tax revenues at P142.9 billion is much lower than the actual collection of P180.4 billion posted in 2013.

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[1] *Prepared by Dina de Jesus-Pasagui in consultation with CPBRD Acting Director-General Romulo E.M. Miral, Jr. Ph.D. and research assistance by the Fiscal Policy Research Service. The views, opinions and interpretations contained in this report do not necessarily reflect the views of the House of Representatives as an institution or its individual members.*

TABLE I
DBCC TARGETS
(AMOUNTS IN BILLION PESOS)

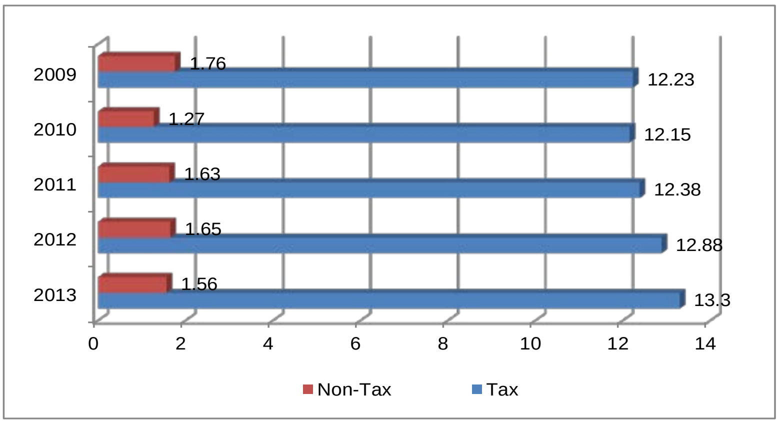
Particulars	2013 Actual	2014 Estimate	2015 Target	Percent of GDP (%) 2013	2014	2015	Growth (%) '13-'14	'14-'15
Total Revenues	**1,716.1**	**2,018.1**	**2,337.3**	**14.9**	**15.7**	**16.5**	**17.6**	**15.8**
Tax Revenues	**1,535.7**	**1,879.9**	**2,194.4**	**13.3**	**14.7**	**15.5**	**22.4**	**16.7**
BIR	1,216.7	1,456.3	1,720.8	10.5	11.4	12.1	19.7	18.2
BOC	304.9	408.1	456.5	2.6	3.2	3.2	33.8	11.9
Other Tax	14.1	15.5	17.1	0.1	0.1	0.1	9.9	10.4
Non-Tax Revenues	**180.4**	**138.1**	**142.9**	**1.6**	**1.1**	**1.0**	**(23.4)**	**3.5**

Source of basic data: BESF

REVENUE PERFORMANCE

From a little less than 14% in 2009, the revenue effort steadily increased to almost 15% in 2013. Note that this was accomplished without new tax legislation, save for reforms in excise tax on tobacco and alcohol (see Annex I for Computation of Incremental Revenue)[2]. On average, tax revenue grew by 0.27 percentage point during the same period while total revenue grew by 0.22 percentage point.

FIGURE I
REVENUE EFFORT, IN PERCENT



Source of basic data: BESF

That the elasticity of revenue – i.e., percentage change in collection over percentage change in GDP – is higher than 1 is an indication of administrative efficiency. In particular, the elasticity of BIR collection improved from -0.9 in 2009 to 1.58 in 2011 and further to 1.64 in 2012. Due

[2] *Based on BIR computation, incremental revenue from RA 10351 in 2013 amounted to P51.1 billion – P41.8 billion (81.8%) from tobacco and P9.3 billion (18.2%) from alcohol. Of the total, P6.4 billion will go to tobacco producing-provinces as LGU shares mandated under RA 7171 and RA 8240 leaving a balance of P44.7 billion for Health Program.*

to a much faster nominal GDP growth of 9.3% compared to 8.8% in 2012, BIR elasticity slipped to 1.6 in 2013. On the other hand, BOC elasticity ranged from 0.3 to 1.5 under the Aquino administration compared to -3.9 in 2009.

TABLE 2
REVENUE ELASTICITY

Particulars	2008	2009	2010	2011	2012	2013
Revenues	0.5	(1.7)	0.6	1.6	1.5	1.3
Tax Revenues	1.0	(1.6)	0.9	1.3	1.5	1.4
BIR	0.8	(0.9)	0.8	1.6	1.6	1.6
BOC	2.0	(3.9)	1.5	0.3	1.1	0.5

Source of basic data: BESF

Cross Country Comparison. Notwithstanding these developments, the Philippine revenue performance pales in comparison with its peers. For instance, Myanmar which reported a revenue-to-GDP ratio of 13.5% in 2008 outpaced other Asian countries with 23.3% and 22.3% revenue efforts in 2012 and 2013, respectively. Starting from 14.4% in 2008, revenue-to-GDP ratio of Lao PDR steadily inched up to 18.1% by the end of 2013. Cambodia's revenue effort improved from 13.3% in 2008 to 14.9% in 2013. Conversely, the Philippine revenue effort dropped from 15.6% to 14.9% during the same period.

TABLE 3
CROSS COUNTRY COMPARISON, REVENUE EFFORT

Country	2008	2009	2010	2011	2012	2013
Cambodia	13.3	11.9	13.2	13.2	15.2	14.9
Indonesia	19.8	15.1	15.4	16.3	16.3	15.7
Lao PDR	14.4	14.9	15.7	16.4	17.7	18.1
Malaysia	20.8	22.3	20.0	21.0	22.1	21.7
Myanmar	13.5	10.7	11.4	12.0	23.3	22.3
Philippines	**15.6**	**14.0**	**13.4**	**14.0**	**14.5**	**14.9**
Singapore	16.8	14.3	14.5	14.9	15.7	15.4
Thailand	16.9	16.4	17.3	18.0	18.3	18.1
Vietnam	29.3	25.8	27.6	26.1	22.9	22.1

Source: 2014 Asian Development Outlook (ADO)

Ironically, Philippine tax rates are on the high side compared with other ASEAN members.[3] Specifically, the value added tax (VAT) rate in Thailand is 7% while Vietnam, Indonesia and Cambodia have 10% VAT. The Philippine VAT is at 12%. On the other hand, the VAT-

[3] *Basic data were downloaded from http://www.taxrates.cc/html of the following countries: Philippines, Thailand, Indonesia, Malaysia, Singapore, Vietnam, Myanmar, Brunei and Cambodia*

equivalent in Singapore – that is, goods and services tax or GST - is at 7% while Malaysia GST is 5% for services and 5-10% for goods.

The 30% income tax rate is imposed on all corporations in the Philippines and Myanmar, regardless of size. In Thailand, the 30% rate applies to large corporations (i.e. net profits exceeding three million baht), companies listed in the Stock Exchange with net profits exceeding 300 million baht, and companies listed in Market for Alternative Investment for more than five accounting periods. Small- and medium-sized limited companies are subject to lower progressive rates (i.e. ranging from 2% to 25%). Meanwhile, corporate tax rates are much lower in Singapore (17%), Cambodia (20%), Brunei (23.5%), Indonesia (25%), Malaysia (25%) and Vietnam (25%).

FIGURE 2
VAT RATES IN ASEAN 5

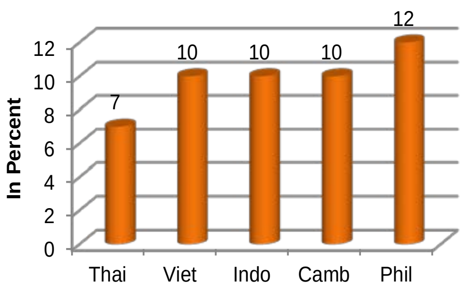
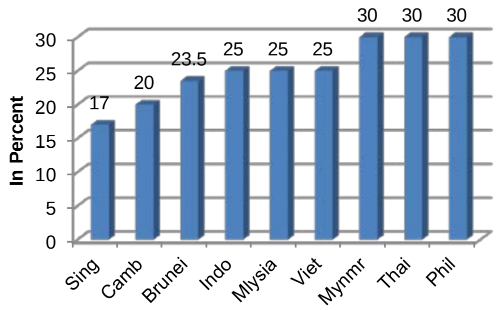


FIGURE 3
GENERAL CORPORATE TAX RATES



Source: CPBRD Facts in Figures November 2013 (No. 18)

CPBRD FISCAL PROJECTIONS

FY 2014 (Scenario 1). The Congressional Policy and Budget Research Department (CPBRD) projects that cash revenues would amount to P1,913.3 billion (14.9% of official GDP) instead of P2,018.1 billion (15.7% of GDP) as targeted by the DBCC. The CPBRD-projected revenue effort may be disaggregated into BIR (10.4%), BOC (2.77%), BTr (0.8%) and other agencies (0.9%).

The revenue estimate was arrived by taking the ratio of January to July collections to full year revenues in FY 2012 and 2013. The computed ratios[4] were then applied to actual collections during the last seven months to get the full year (2014) collection.

With a DBCC cash disbursement target of P2,284.3 billion and a CPBRD projected revenue of P1,913.3 billion, the deficit could reach P371 billion or 2.9% of official GDP. Apparently, this is not consistent with the medium-term target of containing the deficit at 2% - as expressed in the FY 2015 Budget Message and in the Philippine Development Plan.

[4] *January to July collection ratios are as follows: BIR (57.09%), BOC (57.32%), BTr (69.9%), others (52.46%)*

TABLE 4
CPBRD PROJECTIONS, FY 2014
(AMOUNTS IN BILLION PESOS)

Particulars	DBCC Targets	CPBRD Projection		Difference	
		Scenario 1	Scenario 2	Scenario 1	Scenario 2
Revenues	**2,018.1**	**1,913.3**	**1,913.3**	**104.8**	**104.8**
% to GDP	15.7	14.9	14.9	0.8	0.8
Cash Disbursements	**2,284.3**	**2,284.3**	**2,163.7**	**-**	**120.6**
% to GDP	17.8	17.8	16.9	-	0.9
Deficit	**(266.2)**	**(371.0)**	**(250.4)**	**104.8**	**(15.8)**
% to GDP	(2.1)	(2.9)	(2.0)		
Memo: Nominal GDP = P12,829.1 billion					

Source of basic data: BESF

Scenario 2. Alternately, the CPBRD projects that cash disbursements for 2014 would amount to P2,163.7 billion. This estimate takes two factors into consideration, specifically the current spending level and cumulative accounts payable. In 2012 and 2013, the government spent an average of 55.9% from January to July compared to full year disbursements.[5] Should the pace of spending by government agencies remain the same, total cash disbursements would amount to P1,965.3 billion.

Box I

Notices of Cash Allocation (NCAs) are issued to enable government agencies to pay for their expenses and obligations. DBM Circular No. 2013-1 dated 21 November 2013 limits the validity of NCA releases for any month until the last working day of the 3rd month of the same quarter only.

As of June 2014, the DBM reports that the following agencies have below 80% NCA utilization rates (i.e. ratio of NCA utilized to NCA released for the period): Office of the President and attached agencies (50.3%), Agrarian Reform (63.8%), Foreign Affairs (65.7%), Public Works and Highways (72.1%), Social Welfare (73.6%), National Economic and Development Authority (74.9%), and Agriculture (76.4%). For details of NCA utilization by department, please refer to Annex II.

Reference: CPBRD Facts in Figures July 2014 (No. 32)

Another component of cash disbursements is the settlement of prior years' obligation or accounts payable. As shown in Table 5, cumulative accounts payable as of the close of 2013 may have reached P198.3 billion – with 2008 as reckoning year. Cumulative accounts payable is computed as the difference between total obligation and cash disbursements plus balance forwarded.

[5] *For consistency with revenue estimation which used 2012 and 2013 data.*

TABLE 5
ACCOUNTS PAYABLE

Year	Total Obligations	Cash Disbursements	Cumulative Balance
2008	1,314.6	1,271.0	43.6
2009	1,434.1	1,421.7	56.0
2010	1,473.0	1,522.4	6.6
2011	1,580.0	1,557.7	28.9
2012	1,829.0	1,777.8	80.1
2013	1,998.4	1,880.2	198.3

Source of basic data: BESF

With cash disbursements of P2,163.7 billion against a revenue projection of P1,913.3 billion, the CPBRD estimates that the deficit can still be kept at 2% of GDP (at P250.4 billion). As observed by critics, however, the government had been slack in spending during the first half of 2014. The actual cash deficit as of July amounting to P55.7 billion is barely 21% of full year deficit of P266.2 billion. Thus, there is still room for increased government consumption that can help fuel economic growth.

FY 2015. The CPBRD projects that total revenues for 2015 would amount to P2,209.9 billion which is equivalent to 15.6% of GDP target for the year. Compared to DBCC revenue goal of P2,337.3 billion (16.5% of GDP), the CPBRD estimate is lower by P127.4 billion.

From CPBRD-projected tax effort of 10.42% in 2014, BIR collection-to-GDP ratio is estimated to grow by 0.51 percentage point next year (i.e. average growth in 2011-2013). Meanwhile, BOC will not be able to nail the 3.2% collection effort target. During the last five years (2009-2013), the highest revenue-to-GDP recorded by Customs was only at 2.88%.

TABLE 6
CPBRD PROJECTIONS, FY 2015
(AMOUNTS IN BILLION PESOS)

Particulars	DBCC Targets	CPBRD Projection	% of GDP	
			DBCC	CPBRD
BIR	1,720.8	1,550.3	12.1	10.9
BOC	456.5	408.5	3.2	2.9
Others	160.0	251.1	1.1	1.8
Total Revenues	**2,337.3**	**2,209.9**	**16.5**	**15.6**
Cash Disbursements	**2,621.0**	**2,621.0**	**18.5**	**18.5**
Deficit	**(283.7)**	**(411.1)**	**(2.0)**	**(2.9)**
Memo: Nominal GDP = P14,184.3 billion				

Source of basic data: BESF

In the case of other offices, the CPBRD assumes that collection as a ratio of GDP will grow by 0.05 percentage point (i.e. average growth in 2011-2013). Thus, from a revenue effort of 1.7% in 2014 as computed by CPBRD, other offices will post an amount equivalent to 1.8% of GDP next year. Note that the DBCC target for 2015 is conservatively pegged at 1.1% of GDP.

Should government spending reach P2,621 billion as targeted by DBCC, the deficit would amount to P411.1 billion (2.9% of GDP) instead of P283.7 billion as projected by the DBCC. The challenge therefore is to increase revenue take particularly tax collections.

REVENUE MEASURES

DOF Legislative Priorities.[6] The Department of Finance (DOF) proposes the enactment of the following legislations: Rationalization of Fiscal Incentives (FIR), Tax Incentive Monitoring and Transparency Act (TIMTA), Customs Modernization and Tariff Act (CMTA), Valuation Reform and a new Mining Fiscal Regime.

Rationalization of Fiscal Incentives. Literature is replete with observations that the Philippine tax system is complicated and generous in giving incentives.[7] Specifically, administration of incentives is done by several agencies leading to unnecessary competition, confusion among investors, and high administrative costs. The grant of income tax holiday (ITH) is also distortionary because it raises the effective tax rates on activities which are not covered by the incentive system. Furthermore, ITH tends to attract footloose firms which are able to leave the country as soon as the incentive expires. Transfer pricing, as a form of tax evasion, also becomes an option as enterprises shift profits to tax-exempt activities and claim deduction in taxable activities (IMF 2012).

The DOF estimates that foregone revenues from redundant incentives in 2011 amounted to P144 billion or at least 1.5% of GDP – i.e. P61.3 billion due to ITH and reduced rate on gross income and P83 billion from import-related tax expenditures.[8] Incentives are considered redundant when investments could have been undertaken even in the absence of perks.

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[6] *DOF presentation before the House Committee on Appropriations on 06 August 2014.*

[7] *IMF Country Report No. 12/60 cites Aldaba (2006), Botman, et.al (2008), Chalk (2001), Reside (2006), Reside (2007) and Le Borgne et.al, (2011).*

[8] *BusinessWorld 19 May 2014 and Rappler.com 26 March 2014.*

TABLE 7
STATUS OF DOF-PROPOSED MEASURES

Particulars	Reference Number	Status as of 20 September 2014
Fiscal Incentives Rationalization	HB 130, 302, 1788, 2765	Undergoing TWG discussion
TIMTA	HB 2492	Under deliberation by the Committee on Ways and Means
CMTA (including anti-smuggling provisions)	HB 5, 10, 166, 1348, 1461, 1583, 3107, 3473, 3504, 3732, 4172, 4767	Undergoing TWG discussion
Valuation Reform		No bill filed
New Mining Fiscal Regime	HB 3586, HR 138	For deliberation by the Committee on Ways and Means; proposed bill from the Executive not yet submitted

Source: Committee on Ways and Means

Tax Incentive Monitoring and Transparency Act (TIMTA). The proposal seeks to foster transparency and accountability in the grant of tax incentives and to institutionalize a system of monitoring and reporting tax expenditures. Specifically, a single database shall be maintained by the DOF, BIR and BOC. A tax expenditure report shall be submitted to the President and Congress as part of the annual budget albeit, automatically appropriated. The Tax Expenditure Account (TEA) may be tapped by investment promotion agencies (IPA), after an allotment release order has been issued by the DBM.

Customs Modernization and Tariff Act (CMTA). The Bureau of Customs is tasked with multiple functions – i.e. tax collection, trade facilitation and border control. These conflicting responsibilities open up avenues for corruption, hence the need to lay down guiding principles and general procedures. In particular, the Tariff and Customs Code which was codified in the 1970s and amended several times, must be updated to keep up with changing international standards. Customs valuation and inspection procedures must be made more transparent and predictable through the implementation of automated procedures.

Also, as signatory to the Revised Kyoto Convention (RKC), the Philippines has to make its national laws consistent with the RKC General Annex and the Specific Annexes on standards and recommended practices. According to the Convention, a contracting party has three years to comply with the regular standard and five years to comply with transitional standards. The country acceded to the RKC in June 2010.

As estimated by the DOF, World Bank and Global Financial Integrity, the collection gap due to smuggling would be between 1% to 2.8% of GDP.[9]

[9] *DOF presentation to the Committee on Appropriations, 06 August 2014*

Valuation Reform. Based on a Land Valuation Policy Study conducted in 2002, local government units forego at least 48% to as much as 71% potential real property tax due to outdated schedule of market values (SMVs). The equivalent amount of revenue loss would be somewhere between P9.7 billion and P26.1 billion. Reasons for non-updating of SMVs include the lack of technical capability particularly among Sanggunian members who have the power to approve the SMV, and non-popularity of tax increase which may endanger the bid for re-election of incumbent local leaders [CPBRD Policy Advisory No. 2010-01].

The DOF proposes reforms in land and real property valuation which would translate into higher real property tax collections for LGUs as well as higher capital gains tax, documentary stamp tax and VAT collections for the national government.

New Mining Fiscal Regime. At present, mining-related taxes, fees and charges are paid to at least three government agencies. Specifically, the Mines and Geosciences Bureau collects the mining fee, 5% royalty and 50% of net mining revenues as additional government share while the Bureau of Internal Revenue imposes the 30% corporate tax, 12% VAT, and seven types of withholding taxes. On the other hand, LGUs collect the business tax, real property tax, registration fees, occupation fee and the like. There are also payments for the indigenous people groups through the National Council for Indigenous People and royalty payment to owners of private land. The emerging Mining Industry Coordinating Council proposal is to adopt a single fiscal regime and a simple formula in determining the sharing agreement.

Other Legislative Measures. Alongside revenue enhancement measures are proposals that would have negative impact on tax collections. These include the grant of special deduction from gross income, exemption from donor's tax and import duties in relation to the proposed Philippine National Apprentice Program Act, Labor Productivity Incentives Act, Political Party Development Act, Magna Carta of the Poor, among others *(see Annex III).*

Moreover, the recently-approved increase in the ceiling for exclusion from gross income of the 13th month pay and other benefits from P30,000 to P70,000 per individual taxpayer will reduce annual tax collections by P1.4 billion on the conservative side. If all employed individuals will claim the maximum amount of P70,000, total revenue loss could reach P43.6 billion.[10]

WB Proposals. The World Bank estimates that given the growth momentum and tax administration measures that are already in place, tax-to-GDP ratio would increase by 1% (from 2013-2016). In order to reach the Philippine Development Plan (PDP) tax effort target of 16% by 2016 - from current (2013) level of 13.3% - an additional 1.7% should be raised through a combination of tax administration and tax policy reforms.

As a caveat, the World Bank prescribes that tax reforms must be taken as a whole package rather than be treated on a piecemeal basis. A correction in one aspect – for instance restructuring of

[10] *DOF position paper dated 29 January 2014 submitted to the CWM Chair*

individual income tax – must be compensated by a more dynamic revenue source such as petroleum excise tax, rationalization of fiscal incentives, recall of sector-specific and taxpayer-specific VAT exemptions, national surtax on real properties and the like. Lowering the tax rate on certain transactions while broadening the tax base and making the tax system simpler, more efficient and more equitable will increase the political feasibility of such a package, according to World Bank.

Box II

Following the passage of excise tax in December 2012, the following revenue-enhancing tax policy reforms could be considered in 2014 for implementation beginning in 2015:

i. Rationalize tax incentives by making them more transparent, performance-based, and temporary, and enact a tax expenditure ceiling to plug systemic leakages in the tax system, level the playing field, and raise revenues.

ii. Reduce the number of VAT exemptions (e.g. cooperatives, power transmission, and selected inputs and imports) to reduce leakages and improve the administration of the VAT. Vulnerable groups can be better protected using the national household targeting system for poverty reduction.

iii. Centralize the valuation of real properties and, if needed, levy a national surtax of up to 2 percent on real properties to improve the equity of the tax system. The increased burden of this tax can be reduced by eliminating the estate tax, which is very hard to collect in practice, and reducing the transfer tax.

iv. Index petroleum excise taxes (which are frozen since 1996) to boost revenues and improve the overall progressivity of the tax system, as the top 10 percent of the population consumes almost 60 percent of total petroleum. Social protection is needed to protect disadvantaged groups should this reform be implemented. This could come in the form of limited and time-bound subsidies and discounts to public utility vehicles. In the short-term, given high fuel prices, a formula-based approach can be used to automatically raise excise taxes once fuel prices fall below a pre-determined retail price (e.g. P50 per liter).

By 2015, **only after revenue-enhancing measures are in place**, a comprehensive tax reform to broaden the base and reduce the rate can be considered. This would help simplify and improve the efficiency and equity of the tax system. The end goal is to make the tax system more responsive to investment and job creation. With political feasibility in mind, this package of reforms could include the following:

i. Reduce the corporate income tax rate from 30 to 25 percent while increasing the gross income earned (GIE) tax from 5 to 7.5 percent (a first best option would be to eliminate the GIE) to improve horizontal equity of the income tax system between firms receiving incentives and firms not receiving incentives.

ii. Reduce the highest marginal tax rate for personal income tax from 32 to 25 percent and reduce the number of brackets to at most 5.

iii. Harmonize all tax rates of capital income at around 15 percent to reduce distortions.

iv. Consolidate all laws and regulations on tax incentives into one Code to improve their administration. The Philippines is one of the few countries that allow tax expenditures to take place outside of the Tax Code.

v. Simplify the tax regime for micro and small firms (e.g. turnover of less than P2 million) to reduce the cost of doing business and spur job creation. This could involve harmonizing the income tax, VAT, percentage tax, and the local business tax into a single tax on turnover.

On tax administration, measures to improve tax compliance and reduce revenue corruption could include the following:

i. Reengineer and simplify procedures and processes required of micro and small enterprises, followed by full automation of all tax processes to facilitate taxpayer compliance and improve governance.

ii. Strengthen real-time monitoring of revenue performance at disaggregated levels to minimize tax leakages.

iii. Issue an executive order mandating all government agencies and selected private sector groups (e.g., electric and phone companies, as well as professional associations) to provide third-party data to the BIR and BOC to improve tax audits.

iv. Further enhance the integrity of revenue officials by, for example, requiring the public posting of top revenue officials' net worth on official websites (following the example of the Department of Labor and Employment and the National Labor Relations Commission[11]) to send a strong signal to the public that the revenue agencies are committed to good governance.

v. Enhance the Commission on Audit's (COA) internal and external audits of BIR and Bureau of Customs (BOC) activities, in particular the adherence of the BIR and BOC to their own audit rules, to improve transparency and accountability of tax administration.[12]

vi. Institutionalize the recording and public reporting of key performance indicators to allow the public to track the performance of the BIR and BOC.

vii. Strengthen BOC's efforts to curb smuggling by inspecting all outward movements of goods from special economic zones.

Source: Philippine Economic Update August 2014

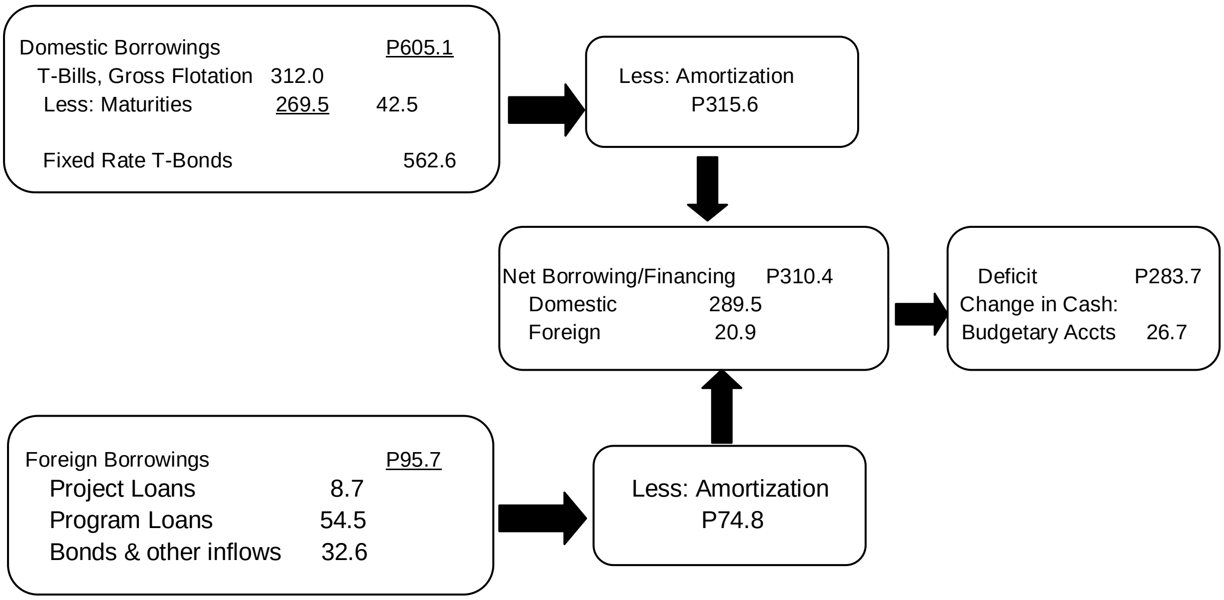
BORROWINGS

The total programmed borrowings for 2015 amount to P700.8 billion – i.e. P605.1 billion (86.3%) domestic and P95.7 billion (13.7%) foreign. In addition to the cash deficit of P283.7 billion, the government has to set aside funds for principal amortization which sum up to P390.4 billion – i.e. P315.6 billion domestic principal and P74.8 billion foreign principal. The residual amount of P26.7 billion represents change in the cash account.

[11] *See, for example, data posted on the websites of DOLE and NLRC*

[12] *An existing executive order (EO 38 of 1998) authorizes COA to audit the BIR's compliance with its own audit rules. This law needs to be enforced.*

FIGURE 4
NG FINANCING, IN BILLION PESOS

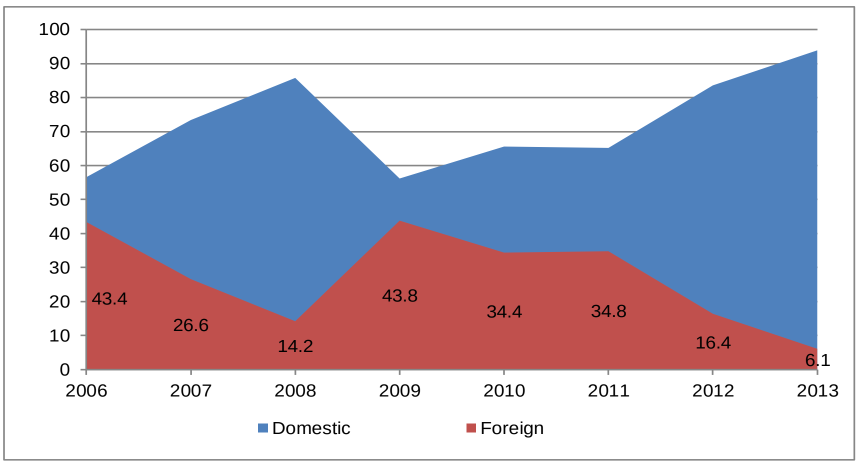


Source of Basic Data: BESF 2015

Going to the domestic sources for financing provides a shield against foreign exchange fluctuations and reflects a healthy external payments position (i.e. lesser need for foreign currencies). From 2010-2013 on average, 77% of financing requirement came from locally-borrowed funds whereas the average from 2006-2009 was recorded at 68%. In 2013, almost 94% of government debts were sourced domestically *(Figure 5)*.

A sizeable part of NG financing (80.3% or P562.6 billion) will be in the form of long-term Fixed Rate Treasury Bonds. Net of maturities, short-term Treasury Bills represent 6.1% of total borrowing for 2015.

FIGURE 5
BORROWING MIX, IN PERCENT



Source of basic data: BESF (DBM)

Apart from the NG, other components of the public sector will also require financing particularly the Central Bank-Board of Liquidators (CB Restructuring) and the major government corporations (GOCCs). The projected deficit of CB in 2015 - which would increase total borrowings of the public sector – amounts to P2.1 billion. Meanwhile, the deficits of major GOCCs[13] are estimated at P17.8 billion in 2014 and P18.7 billion in 2015. Note that in 2013, these GOCCs posted a net surplus of P61.6 billion.

As explained by the Governance Commission for GOCCs, these agencies would resort to either a combination or all of the following measures to be able to cover the deficit: (a) equity infusion from the national government – if not yet fully capitalized, (b) advances from the NG – under the Net Lending Program, and (c) loan borrowings.[14] Taken altogether, the public sector borrowing requirement for 2015 is programmed at P290.5 billion or an increase of 8.4% (P22.5 billion) compared to 2014.

TABLE 8
PUBLIC SECTOR BORROWING REQUIREMENT
(AMOUNT IN BILLION PESOS)

Particulars	2013 Actual	2014 Adjusted	2015 Projected
Public Sector Borrowing Requirement	**(92.0)**	**(268.0)**	**(290.5)**
National Government	(164.1)	(266.2)	(283.7)
CB Restructuring	(1.1)	(2.1)	(2.1)
Monitored GOCCs	61.6	(17.8)	(18.7)
Oil Price Stabilization Fund	11.6	18.1	14.0

Source: BESF 2015

DEBT STATISTICS

The outstanding debt of the national government (NG) grew from P4,396.6 billion in 2009 to P5,681.1 billion in 2013 - i.e. equivalent to 49.2% of GDP for the year. Note however that the debt-to-GDP ratio in 2009 was much higher at 54.8%. The Aquino administration targets a 43.4% NG debt-to-GDP ratio by the end of its term (2016).

If the debts held by the Bond Sinking Fund, Social Security Institutions and LGUs are excluded, general government (GG) debt as a ratio to GDP is even lower at 39.2%. In 2009, GG-to-GDP

[13] *The monitored GOCCs are the National Power Corporation (including TransCo and PSALM), Philippine National Oil Company, Metropolitan Waterworks and Sewerage System, National Irrigation Administration, National Development Company, Light Rail Transit Authority, Local Water Utilities Administration, National Electrification Administration, National Housing Authority, Philippine National Railways, Philippine Ports Authority, National Food Authority, Home Guaranty Corporation, Philippine Economic Zone Authority.*

[14] *GCG Annual Report, FY 2013 p. 50*

ratio was at 44.3%. The DOF is determined to bring down the GG-to-GDP ratio to 30% by 2016.

In term of maturities, 86.5% of outstanding NG debts are long-term while only 5.6% are short-term (i.e. 90 days). In 2009, the debt mix is 14.2% short-term, 17.3% medium-term and 68.6% long-term. By lengthening the maturity of debts, the government is able to reduce refinancing risk (i.e. frequent borrowings to cover maturing debts). The downside of long-term borrowing is that it exposes future administration to debt settlement problems especially if borrowed funds are not prudently managed.

TABLE 9
DEBT STATISTICS, 2009-2013

Particulars	2009	2010	2011	2012	2013
NG Outstanding Debt (P billion)	**4,396.6**	**4,718.2**	**4,951.2**	**5,437.1**	**5,681.5**
Maturities (%)					
Short-term	14.2	11.2	6.0	5.0	5.6
Medium-term	17.3	15.2	11.4	8.8	7.9
Long-term	68.6	73.6	82.6	86.2	86.5
NG debt/GDP (%)	54.8	52.4	51.0	51.5	49.2
GG debt/GDP (%)	44.3	42.2	41.4	40.6	39.2
Debt Service/Revenues	55.4	57.1	53.1	47.5	32.6
Interest Payments/Revenues	24.8	24.4	20.5	20.4	18.8
Interest Payments/Expenditures	19.6	19.3	17.9	17.6	17.2

Sources: DOF Presentation before the Committee on Appropriations, 06 August 2014, BESF (DBM), and BTr

The debt service-to-revenue ratio is indicative of the ability of government to free up resources that may be channeled to public goods and services. From 55.4% in 2009, the share of debt service (i.e. principal plus interest) to total revenues declined to 32.6% in 2013. Likewise, the ratio of interest payments to revenues decreased from 24.8% to 18.8% during the same period. Thus, there is now wider fiscal space for infrastructure and human resource investments compared to the time the Aquino government assumed office.

Another measure of debt burden is the ratio of interest payment to cash disbursements/expenditures. As shown in Table 9, the amount spent for interest expense declined from almost 20% of total expenditures in 2009 to 17.2% in 2013.

SUMMARY

A well-written budget is of little use if funding support is weak. The CPBRD estimates that full year revenue for 2014 would amount to P1,913.3 billion instead of P2,018.1 billion as programmed by the DBCC. Given a disbursement program of P2,284.3 billion, the cash deficit would reach 2.9% of GDP (P371 billion) – way above the government target of 2.0%. Because of slow disbursement, however, the government deficit may end up within the target.

For 2015, the DBCC sets its revenue goal at P2,337.3 billion (16.5% of GDP). The CPBRD projects that only P2,209.9 billion (15.6%) will be generated. If the level of cash disbursement is kept at P2,621.3 billion (18.5%) as programmed by DBCC, the deficit would tick up to P411.1 billion or 2.9% of GDP.

While there had been marked improvement in revenue effort, the Philippines still tails behind its Asian neighbors. And this is despite the fact that it has one of the highest tax rates in the region which pose as stumbling block for investing and doing business in the country. Thus, a holistic review of existing tax policy, systems and structure should be undertaken. The last comprehensive tax reform program, initiated in 1994, was passed in December 1997 (RA 8424).

Another cause for concern is government under-spending. As of June 2014, the cash utilization rates of seven departments are still below 80%. Meanwhile, accounts payable (or the difference between obligation incurred and cash payments) had been piling up. As of December 2013, cumulative balance of Accounts Payable amounts to P198.3 billion (reckoned from 2008).

A narrow revenue base, relatively high tax rates, anemic public spending, and accumulation of accounts payable – these are the pressing concerns of the fiscal sector for the remaining term of the Aquino administration.

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ANNEX I
COMPUTATION OF INCREMENTAL REVENUE UNDER RA10351 (SIN TAX LAW) CY 2013
(IN BILLION PESOS)

Particulars	Tobacco	Alcohol	Total
Total Excise Tax Collection	70.39*	32.99	103.38
Less: Baseline Collection (without RA 10351)	28.55**	23.66	51.91
Total Incremental Revenue	**41.84**	**9.33**	**51.17**
Less: Deductions			
a. LGU share under RA 7171	5.95	-	5.95
b. LGU share under RA 8240	0.50	-	0.50
Total Deductions	**6.46**	**-**	**6.46**
Balance of Incremental Revenue from RA 10351 for Health Program	**35.38**	**9.33**	**44.72**

**inclusive of excise tax collected from imported cigarettes amounting to P2.4 billion*
***inclusive of excise tax baseline revenue on imported cigarettes amounting to P300.1 million*

ANNEX II
NCA UTILIZATION, JANUARY TO JUNE YEAR- ON-YEAR
(AMOUNTS IN MILLION PESOS)

Particulars	NCA Releases		NCAs Utilized		Utilization Rate (%)	
	2013	2014	2013	2014	2013	2014
DepEd	119,562	133,494	115,379	126,439	96.5	94.7
DPWH	97,926	95,896	72,934	69,127	74.5	72.1
DND	64,375	77,898	63,504	76,518	98.6	98.2
DILG	60,813	71,655	58,704	69,139	96.5	96.5
DSWD	30,335	44,592	29,790	32,826	98.2	73.6
DA	27,423	30,342	25,182	23,189	91.8	76.4
SUCs	16,230	15,916	15,882	15,657	97.9	98.4
DOH	15,250	19,006	14,523	16,438	95.2	86.5
COMELEC	13,901	2,337	13,901	2,337	100.0	100.0
DENR	12,764	11,879	10,182	10,295	79.8	86.7
Judiciary	9,002	9,757	8,958	9,461	99.5	97.0
DOTC	8,393	11,843	7,448	9,627	88.7	81.3
DOF	7,458	11,233	5,799	9,795	77.8	87.2
ARMM	7,330	9,422	7,220	9,208	98.5	97.7
DOST	6,407	8,319	5,660	7,683	88.3	92.4
DOJ	5,697	6,422	5,477	6,099	96.1	95.0
OEOs	5,434	6,994	4,751	4,211	87.4	60.2
DAR	4,878	8,649	4,668	5,519	95.7	63.8
DFA	4,856	5,136	4,853	3,374	99.9	65.7
Congress	4,695	4,601	4,250	4,501	90.5	97.8
DOLE	4,658	5,613	4,260	4,790	91.5	85.3
COA	3,998	4,245	3,836	3,782	96.0	89.1
NEDA	2,803	1,688	2,708	1,265	96.6	74.9
DOT	2,299	1,404	1,520	1,261	66.1	89.8
DTI	1,488	2,063	1,380	1,855	92.8	89.9
OP	1,143	1,684	995	848	87.1	50.3
OMB	743	842	743	842	100.0	100.0
PCOO	727	759	722	747	99.3	98.4
DBM	548	4,985	502	4,942	91.5	99.2
CSC	489	690	486	683	99.4	99.1
DOE	329	435	305	427	92.8	98.1
OVP	209	94	197	85	94.0	90.0
CHR	156	168	155	167	99.7	99.5
JLEC	1	3	1	2	73.7	89.0
Others	195,714	228,022	193,703	227,299	99.0	99.7

Source: DBM Website (www.dbm.gov.ph)

ANNEX III
BILLS REFERRED TO THE HOUSE COMMITTEE ON WAYS AND MEANS

Proposed Measure	Committee Origin	Approved by CWM
Voluntary Student Loan Program Act	Higher and Technical Education	10 December 2013
Unified Student Financial Assistance System for Higher and Technical Education Act	Higher and Technical Education	10 December 2013
Adopt-A-Wildlife Species Act	Natural Resources	28 May 2014
Political Party Development Act	Suffrage and Electoral Reforms	04 February 2014
People's Participation in Industry Cluster-based Programs and Projects Act	People's Participation	25 February 2014
Filipino Volunteerism in Nation-Building or Bayanihan sa Bagumbayan Act	People's Participation	25 February 2014
Western Visayas Medical Center Charter	Health	28 May 2014
Philippine National Apprentice Program Act	Labor and Employment	03 June 2014
Animal Industry and Veterinary Services Act	Agriculture and Food	28 May 2014
Sugarcane Industry Development Act	Agriculture and Food	28 May 2014
Philippine National Performing Arts Companies Act	Basic Education and Culture	28 May 2014
Open Learning and Distance Education Act	Higher and Technical Education	21 May 2014
Disposition of Welfarevile Property to Bonafide Residents of Mandaluyong	Housing and Urban Development	10 March 2014
Magna Carta of the Poor	Poverty Alleviation	21 May 2014
Special Education (SPED) Centers Act	Welfare of Children	21 May 2014
Guimaras State University	Higher and Technical Education	28 May 2014
National Center for Geriatric Health Act	Health	03 June 2014
Productivity Incentives Act	Labor and Employment	12 August 2014
National School Feeding Program	Basic Education and Culture	12 August 2014

Source: Committee on Ways and Means