Budgeting in the Philippines

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Jón Ragnar Blöndal
Deputy Head
Budgeting and Public Expenditures
Agenda

- Distinctive Characteristics of the Philippine Budget Process
- Stages of the Budget Formulation Process
- Role of Congress and Budget Implementation
- Conclusions
Distinctive Characteristics

- Fiscal Discipline
- Tax Compliance and Corruption
- Subsidies: Government Owned and Controlled Corporations
- National Planning
- Development Budget Coordination Committee
- Unprogrammed and Special Purpose Appropriations
Fiscal Discipline

- President GloriaMarcapagal-Arroyo made restoring fiscal discipline a key priority upon assuming office. She declared that the country was on the verge of a “fiscal crisis” and identified the budget deficit as the “most urgent problem.”

- A 2004 plan was put in place to balance the budget in six years (2010). The core of the programme was to reinforce revenue-raising while maintaining spending restraint.

- Near balance achieved in 2007. The outlook for eliminating the deficit by 2008 – two years ahead of the original schedule – became the government’s new goal. The global financial crisis however upset these plans.

- The fiscal consolidation achieved in the earlier years allowed the Philippines to be in a much better condition to withstand and respond to the impact of the global financial crisis.
Fiscal Performance – Budget Balance

![Graph showing budget balance as a percentage of GDP from 2000 to 2008. The graph indicates a decrease from 2000 to 2002, followed by an increase until 2008.](image-url)
Fiscal Performance – Revenue

![Graph showing the percentage of GDP for fiscal performance from 2000 to 2008. The graph indicates a general upward trend with slight fluctuations. The percentage of GDP starts around 13% in 2000 and rises to approximately 17.5% in 2008.](image-url)
Fiscal Performance – Expenditure

The diagram shows the percentage of GDP spent on expenditure from 2000 to 2008. The expenditure percentage peaks around 2002 and then decreases steadily.
Tax Compliance and Corruption

- Revenue mobilization is the central and long-standing fiscal problem in the Philippines
  - Need to broaden tax bases and increase rates
  - Need to improve tax collection ("tax effort")

- Rampant tax evasion
  - About thirty percent of value-added tax is evaded
  - About two-thirds of professionals and the self-employed evade paying income tax
  - About eighty percent of those classified as “large taxpayers” claimed between 70-90% of reported gross income as allowable deductions

- This is made possible by extensive corruption in the revenue-generating agencies. Countermeasures have been put in place but problem remains
Development Budget Coordinating Committee

- Consists of the key economic agencies and meets throughout the year to co-ordinate budget formulation and implementation activities.

- Its functions are, *inter alia*, to:
  - Establish the level of annual government expenditure
  - Determine the proper allocation of expenditure
  - Analyze macroeconomic prospects
  - Assess reliability of revenue estimate
  - Recommend appropriate tax or other revenues measures and the extent and type of borrowings.

- Acts as a consultative forum where each of the economic agencies explains what is within its specific remit, which is then endorsed by the Committee. It has a collegiate atmosphere.
National Planning

- Long history of employing national development planning

- *Mid-Term Philippine Development Plan*
  - Produced shortly after President assumes offices
  - Organized into plans for 25 separate sectors – including such sectors as foreign affairs and national defence.
  - Makes no references to specific budget amounts.
  - Aspirational and academic/scientific in nature for each sector
  - Annual *Socio-Economic Report* assesses progress against the Plan

- Plays only a perfunctory role in the budget process
  - Agencies make reference to it in their budget proposals
  - Due to its nature, does not provide guidance for resource allocation
Subsidies: Government Owned and Controlled Corporations

- Two main sources have a material effect on the government’s overall fiscal position

**National Food Authority**
- Mandate to stabilize supply and prices of rice
- Deficit amounted to 1% of GDP in 2008, financed by government-guaranteed borrowing
- Efforts to better target subsidies – *access cards*

**National Power Corporation**
- Its rates have not always kept pace with costs
- Deficit reached a high of 1.8 percent of GDP in 2004, financed by government-guaranteed borrowing
- Government then increased rates sharply and took over significant share of its debts

- The Philippines is the only country in Southeast Asia aside from Singapore to have no oil subsidies
Unprogrammed and Special Purpose Appropriations

**Unprogrammed Appropriations** – “Stand-by Appropriations”
- Can only be used once certain conditions have been met.
- Revenue benchmarks - new financing becomes available
- Contractual benchmarks - counterpart funding for ODA projects
- Nearly 10 per cent of the total budget in 2008
- Usually requires an offset from *programmed appropriations* so not to affect overall budget deficit

**Special Purpose Appropriations**
- More than half of all appropriations are in the form of Special Purpose Funds. These can be divided into two groups.
  - First, the major ones are *presentational* in nature to highlight specific programs to Congress
  - Second, lump-sum appropriations with their specific use only to be identified during budget execution
- Controversial in the Philippines
Budget Formulation Process

• Phase I – Setting Budget Parameters
  ▪ Economic Assumptions and Revenue Forecasts
  ▪ Assessing the continuing costs of existing programmes through a medium-term expenditure framework, *Forward Estimates*.
  ▪ Identifying the uses of the resultant “fiscal space” through a *Paper on Budget Strategy*

• Phase II – Allocating Resources
  ▪ The issuance of a *Budget Call* to all government agencies
  ▪ Submissions and review of spending proposals by the Department of Budget and Management
  ▪ Final political decision-making on resource allocation
Revenue Forecasts

- Revenues have been less than estimated. This serves to undermine the integrity of the budget process. This, however, is not the classic case of making “optimistic” revenue projections.

- The key issue in the Philippines is that the “tax effort” of the two key revenue collection agencies is limited due to compliance and corruption issues.

- The revenue collection agencies make their own projections based on “historical experience” of collection. They submit their forecast to the Department of Finance, which insists on using higher forecasts based on progress in raising the “tax effort.” These assumptions are used in the budget but the progress in this area has been limited and actual revenue has fallen short.

- This issue is known throughout government and clouds the entire budget process as it is generally known that in-year adjustments will need to be made in view of actual revenue.
Forward Estimates - MTEF


- A significant share of the budget is accounted for by capital projects, which are by their nature one-off. They do not lend themselves to the MTEF concept of baseline cost of continuing existing policies.

- Systemic issues with revenue forecasting, which inflates the MTEF in terms of fiscal space for new expenditures.

- High degree of flexibility permitted in the implementation of the budget, both to “crawl back” expenditures in view of actual revenue receipts and because of extensive in-year re-allocations.

- Great effort needed to keep the MTEF up-to-date throughout the year in view of the above.
Paper on Budget Strategy

- Prepared by DBM to discuss the uses of additional resources deemed available (fiscal space). About 20+ pages in length. Introduced in 2006.

- Basis for discussion within the Development Budget Coordinating Committee (DBCC) for deciding on priority sectors for the use of new resources.

- Instrumental in systematically restructuring the budget – top-down – in recent years to significantly increase spending for infrastructure development, education and health.

- Further refinement underway to increase involvement of President in earlier stages of the budget process and to synchronize better the budget and the State of the Nation address.
Role of Congress and Budget Implementation

• Congress is very active and vocal in the budget process
  • Budget committees include a majority of members of Congress

• Discussion of the budget is often tense in both chambers and between the two chambers
  • Congress is not always able to approve a budget prior to the start of the fiscal year, or in some cases not at all.
  • Congress reduces appropriations for interest on the debt to overcome constitutional restriction on increasing expenditure

• President enjoys extraordinary powers vis-à-vis the Congress in budgetary matters
  • Line-Item Veto, Restrictions on Disbursement of Funds
  • Reallocation of funds
Conclusions

- The Philippines have achieved impressive fiscal outcomes in recent years despite significant obstacles, including the effects of the global financial crisis.

- The Philippines have also been active in introducing modern budgeting reforms. These include a medium-term expenditure framework (MTEF), a Paper on Budget Strategy to guide top-down budget allocation decisions, and extensive use of performance and results information.

- It must be emphasized that the impressive fiscal outcome and implementation of modern budgeting reforms have been accomplished within a most challenging governance environment.
For further information

www.oecd.org/gov/budget

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jon.blondal@oecd.org