

Highlights and Implications of the 1999 National Budget

(Presentation made by Budget Secretary Benjamin Diokno during the 1st LEDAC meeting held on 16 February 1999)

Mr. President, Honorable Members of LEDAC, Ladies and Gentlemen:

I will divide my brief remarks into three parts:

First: the highlights of the 1999 budget with focus on its sectoral allocation.

Second: the budget strategy we have adopted to make sure that despite the planned deficit that it will be non-inflationary and that it will support our desire to have an early economic recovery.

Finally: the budget reforms we have undertaken to speed up project and program implementation and to enhance transparency and accountability of public funds.

The characteristics of the budget:

Slide 2: The 1999 budget of P579.5 billion is 10% higher than the 1998 budget. As a percent of GNP it is only 18.7%, slightly less than what it was in 1998.

Slide 3: The social sector accounts for the biggest share of the budget - 43.7% if IRA and debt service are netted out. This followed by economic services. The sectors -social and economic - account for close to three-fourths of the total budget.

Slide 4: Within the economic sector, communications, roads and other transport programs and projects will account for the biggest share - 54.5 billion or 14.9% of total budget. Agriculture, agrarian reform and natural resources will get a total of P31 billion, or 8.5% of total budget net of IRA and debt service.

Slide 5: Education culture and manpower development will receive an allocation of P112.6 billion or 30.7 percent of total budget.

Slide 6: Public order and safety, a priority program of the Estrada administration, will receive an allocation of 40.8 billion or 11.1 % of total budget.

Slide 7: Another way of looking at the budget is by expense class. The total wage bill or total personnel services of the national government is 219.9 billion or 60% of total budget. This has been its share for the last few years. Capital outlays will receive about P68.8 billion or 18.8% of total budget. In future years we should do better than this. We should be targeting close to about one-fourth of the budget.

Slide 8: An increasing share of the budget is being set aside for the Internal Revenue Allotment to local governments. The total budgetary resources that will go to local government units is estimated at P103.8 billion, of which 97 billion will be in the nature of the IRA grant. As a share of the budget, IRA use to be less than 10%; the assistance to LGUs has now reached up to 18.8 percent of the budget. In the years ahead we should try to influence local government spending so that the IRA will be spent in a way that support national priorities.

The budget and the macro economy

Slide 9: The national budget is based on and will support an economic growth of between 3.0 to 3.7% and an inflation rate of between 8-9 percent.

Slide 10: The 1999 budget should be a critical tool for early economic recovery. Our success or failure to make this happen will depend on four factors:

First: a fiscal stimulus package that will help perk-up construction and raise overall demand in the economy.

Second: a sound revenue base. Our commitment to the IMF is the size of the deficit. If we are able to raise more revenues - tax or non-tax --then we can spend more. Otherwise, we will be forced to cut back on spending.

Third: our success will also depend on a financing program that is less inflationary and that will not cause domestic interest rates to rise.

Fourth: our success will also depend on a set of budget reforms that will speed up implementation, reduce graft, foster transparency, and improve public accountability of public funds.

Slide 11: The size of the deficit is nothing to be of major concern. The proposed national government deficit will be in the neighborhood of 2.2% of GNP while the consolidated public sector deficit - the deficit including those of the major corporations, the old Central Bank, and other public institutions -- only be 3.1% of GNP. This is in stark contrast to other troubled countries with deficit-to-GNP ratio ranging from 5 to 7%. What is even more important is that: one, what is driving the deficit is what we call **non-recurring** expenditures like accounts payable in previous years, and second, that we are able to identify **non-inflationary** ways of financing the deficit.

Slide 12: As private aggregate demand continues to be weak during the first half of the year, the government has to pick up the slack through a program of stimulating government construction and payment of accounts payable.

Slide 13: The revenue base has to be improved in order to support our plan to have a balanced budget by year 2001. The tax legislation should focus on broadening the tax base and improvement of tax administration.

Slide 14: Our strategy for financing the budget deficit will be much different from the previous administration. We will rely more on foreign financing in order to avoid the rise in domestic interest rate.