

Towards Sustainable Fiscal Policy

LEDAC Meeting
February 6, 2001

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Outline of Presentation

- ☞ Where are we now?
- ☞ What are the risks we face?
- ☞ What is the impact on the budget deficit?
- ☞ What shall we do?

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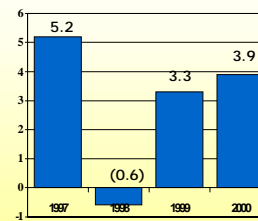
Where We Are . . .



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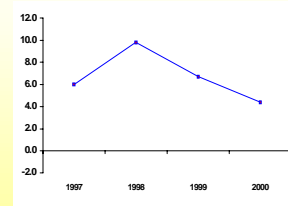
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The economy is recovering . . .



SOURCE: National Statistics Coordination Board

Real GDP Growth Rate



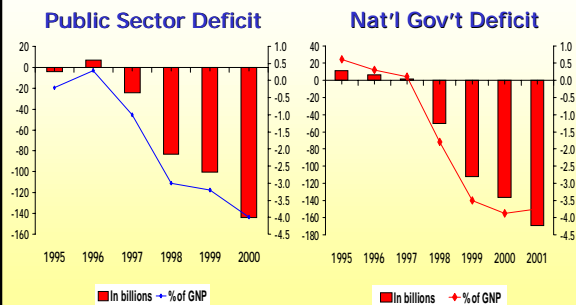
SOURCE: National Statistics Office

Inflation Rate

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. . . but the budget deficit threatens the recovery . . .



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Fiscal Position, 2000-2001 (In billion pesos)

Particulars	2000	2001 ^{1/}
Revenues	505.7	565.1
Disbursements	641.7	734.7
Deficit	(136.0)	(169.6)
Percent of GNP		
Revenues	14.4	14.6
Disbursements	18.3	19.1
Deficit	(3.9)	(4.4)

^{1/} Budget passed by House in December 2000 (HB 11995)

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Revenues, 2000-2001 (In billion pesos)

Particulars	2000	2001 ^{1/}
Revenues		
TAX	451.9	516.5
BIR	354.0	398.0
BOC	93.7	102.0
Others	4.2	6.4
NON-TAX	53.8	48.6
TOTAL	505.7	565.1
Memo Items:		
Recurring	500.8	558.1
Non-recurring (privat'n)	4.9	7.0

^{1/} Budget passed by House in December 2000 (HB 11995)

Disbursements, 2000-2001^{1/} (In billion pesos)

Particulars	2000	2001 ^{2/}
Nat'l Govt. Agencies	391.2	414.1
Personal Services	227.2	262.2
MOOE	84.3	67.5
Capital Outlays	79.7	84.4
LGU-IRA	99.8	132.4
Support to Gov't Corps	9.9	12.0
Interest Payments	140.9	176.2
TOTAL	641.8	734.7

^{1/} Includes Accounts Payable 52.7 82.5
 NGA & GOCCS 52.7 71.0
 LGUs - 11.5

^{2/} Budget passed by House in December 2000 (HB 11995)

Expenditures by Sector, 2000-2001^{1/} Percent distribution

Particulars	2000	2001
Economic Services	22.6	22.7
Social Services	33.3	30.2
Defense	6.3	5.9
General Public Services	16.3	16.6
Debt Burden	21.5	24.6
TOTAL	100.0	100.0

^{1/} Net of IRA

The Risks We Face . . .



Risks to Revenue Collection . . .

Delay in implementing BIR revenue enhancement measures (P10.0 B)

Uncertain privatization prospects (P7.0 B)

Potential shortfall (P17.0 B)

Risks of higher expenditures . . .

- Displaced Foreign-Assisted Projects (Loan Proceeds: P6.6 B)
- Guarantee calls
 - ✓ MRT (P2.1 B)
 - ✓ MM Solid Waste Project (P1.9 B)
- Unremitted GSIS premiums (P7.1 B)
- Power Sector Bill (P10.0 B)
- Debt service advances to gov't corps. (P2.0 B)

Potential claims (P29.7 B)

The Impact on the Budget Deficit . . .



Worst Case Scenario, 2001* (In billion pesos)

Particulars	Latest	Risk Factors	Worst Case
Revenues	565.1	(17.0)	548.1
Disbursements	734.7	29.7	764.4
Deficit	<u>(169.6)</u>	<u>(46.7)</u>	<u>(216.3)</u>

* % of GNP (4.4) (1.2) (5.6)

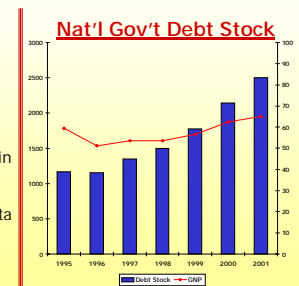
The worst case deficit scenario is not acceptable . . .

- ❑ Threat to recovery
 - ✓ crowd out private sector demand for credit
 - ✓ increase interest rates
 - ✓ weaken the peso
 - ✓ raise prices of goods and services
- ❑ Further dampen investor confidence

The debt impact unfairly burdens future generations...

Outstanding debt will rise

- ▶ from P2.1 T in 2000 to P2.5 T in 2001 in nominal terms
- ▶ from 51% of GNP in 1996 will rise to 61% in 2000 and 65% in 2001
- ▶ from debt of P16,515 per capita in 1996 to P32,470 in 2001



The Treasury's cash balance is limited . . .

Cash Balance in Treasury (In billion pesos)

Particulars	12/29/00	01/25/01
Total	116.1	123.8
Restricted	60.3	60.3
Free	55.8	63.5
Weeks of 2001 payments	3.0	3.4

a. / Includes P50 B frozen deposit in BSP due to Central Bank restructuring

What To Do . . .



We must implement a responsible deficit reduction strategy . . .

- ❑ Tax administration reform
- ❑ Tax structure reform
- ❑ Asset sale
- ❑ Expenditure rationalization

TAX ADMINISTRATION REFORM

- ❑ Full implementation of Large Taxpayers Program
- ❑ Fast tracking of computerization of procedures/database
- ❑ Strengthening of audit system
- ❑ Third Party Information Initiative
- ❑ Electronic metering of documentary stamps
- ❑ Liberal compromise settlement of delinquent accounts
- ❑ Strict monitoring of compliance of LGUs of withholding tax laws

TAX STRUCTURE REFORM

- ❑ Financial sector tax reform
- ❑ Removal of double taxation on asset-backed securities
- ❑ Reform of the excise tax on motor vehicles
- ❑ Rationalization of tax incentives
- ❑ Reorganization/expansion of the jurisdiction of the Court of Tax Appeals

ASSET SALE

- ❑ PNCC
- ❑ MERALCO
- ❑ IBC 13 (P2.0 B)
- ❑ Moonwalk Property (P0.45 B)
- ❑ BCDA Property-Lot C (cash upfront) (P0.7 B)
- ❑ Other Real Properties
 - For disposition by APT (P1.5 B)
 - For disposition by PCGG (P0.5 B)

EXPENDITURE RATIONALIZATION

- ❑ Implement an austerity program
- ❑ Implement a hiring freeze except key posts
- ❑ Defer new locally-funded projects
- ❑ Purge low priority programs/projects
- ❑ Protect high priority programs on
 - poverty reduction
 - frontline public services
 - El Niño mitigation
 - critical on-going infrastructure projects
- ❑ Strengthen accountability for outcomes and outputs

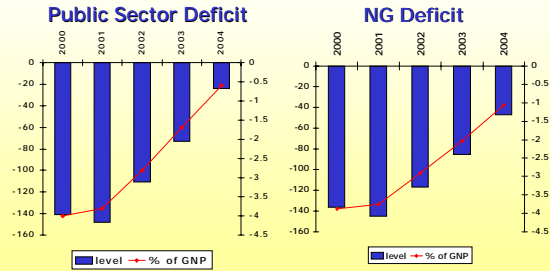
If implemented, deficit reduction strategy will lead to manageable deficit level . . .

Particulars	Latest	Worst Case	Tentative Target
Revenues	565.1	548.1	578.1
Disbursements	734.7	764.4	723.1
Deficit	(169.6)	(216.3)	(145.0)

* % of GNP

(4.4) (5.6) (3.8)

... restore fiscal discipline over the medium term ...



... re-establish sustainable fiscal policy that will contribute to an economy that is stronger and more socially responsive.

The Arroyo Administration