

# A BALANCED BUDGET BY 2010

The Arroyo administration, through the Medium-Term Philippine Development Plan (MTPDP), 2004-2010, is seeking to balance the budget by collecting the right revenues and ensuring that money is spent on the right things.

Socioeconomic Planning Secretary and Director-General of the National Economic and Development Authority (NEDA) Romulo L. Neri says that the Philippines' fiscal position has improved last year, strengthening optimism for a balanced budget by 2010.

Secretary Neri reveals that for 2004, the national government's fiscal deficit ended at PhP186.1 billion or at 3.8 percent of the gross domestic product (GDP), lower than the target of 4.2 percent. He says that for this year, the government aims for a further reduction in the national government's fiscal deficit to PhP180 billion or 3.6 of GDP.

A significant part of the deficit comes from increasing debt and the unhealthy financial state of government-owned-and-controlled corporations (GOCCs).

The MTPDP estimates the government's debt at PhP3.4 trillion or at 78 percent of GDP. The debt accumulated at a rate of 20.3 percent between 1999 and 2000 due to high interest rates and the sudden depreciation of the peso from PhP40.25 to a dollar in 1999 to PhP49.95 to a dollar in 2000.

As of September 2004, the debt of GOCCs including the National Power Corporation (NPC) contributed to the consolidated public sector deficit (CPSD) amounting to PhP312 billion or 7 percent of GDP. Unless the situation is remedied, the public debt is expected to rise in the coming years.

## PROPOSED REFORMS

To tame the deficit, the government is pushing for tax and revenue reforms to reach a balanced budget position in 2010. Under the Medium-Term Fiscal Program, these reforms also hope to reduce the ratio of CPSD-to-GDP from 6.7 percent in 2004 to 1.0 percent of GDP in 2010; and public sector debt-to-GDP from 136 percent in 2004 to 90 percent by 2010.

**New Taxes.** Secretary Neri said that the Executive and the Legislature are committed to pass measures that will enable the government to generate more than PhP80 billion annually.

He said that these measures include the proposed increase in Value Added Tax or VAT from 10 to 12 percent. This is expected to earn between PhP30 to PhP65 billion for the government. Moreover, the indexation of excise tax on alcohol, cigarettes, and tobacco or 'sin' products is seen to generate PhP 15 billion, he added.



Another bill, the Lateral Attrition Law (signed into law on January 25, 2005 under Republic Act 9335) is also expected to improve revenue collection efficiency by setting in place a penalty and incentive system for revenue collection agencies.

Under the MTPDP, other revenue measures to be implemented include the telecommunications tax which will reimpose the franchise tax on telecommunication companies (estimate revenue is PhP9.1 billion); shift to gross income taxation to encourage tax compliance (PhP16.76 billion); rationalization of fiscal incentives for an efficient and effective tool for investment promotion (PhP5 billion); and excise tax on petroleum products that will increase the tax rates on petroleum products except kerosene by PhP0.50 to PhP2.45 (PhP28 billion).

There is also a plan for a tax amnesty for residents and nonresidents (PhP25 billion).

Except for the Lateral Attrition Law, all these tax measures are pending in both houses of Congress.

**Better Tax Administration.** Tax collection inefficiency is an accomplice to the deficit problem. That's why the government will also pursue administrative reform measures to increase tax collection by strengthening tax audit and surveillance.

Innovative sources of wealth creation that include privatization of the National Power Corporation and the mobilization of investors for the Mt. Diwalwal gold mines will also be tapped by the government.

Under the MTPDP, a disciplined, efficient spending and an effective debt management shall also be pursued to address the fiscal deficit.

**Spending Cuts.** The government hopes to cut spending by improving performance of GOCCs. For example, construction of power substations and rehabilitation of distribution lines in support of the National Electrification Administration's (NEA's) system loss reduction program will be pursued.

A Unified Ticketing System will also be implemented by the Light Rail Transportation Authority (LRTA). The shareholdings and companies under the National Development Company (NDC) will be dissolved, alongside the improvement of lease terms and a streamlining program among GOCCs.



Help from Congress, moreover, is needed for the following: (a) rationalization or reorganization program to focus the resources of government on vital/core functions, minimize overlaps and duplications, and improve delivery and support systems; (b) rationalization of retirement and pension benefits to ensure sustainability; and (c) enactment of the fiscal responsibility bill that will impose a debt cap and ensure a more transparent management and monitoring of public sector debt.

The austerity program by the government (through Administrative Order 103 issued in August 31, 2004) will be continued. Personal services will be rationalized to generate savings to fund salary adjustments. The Medium-Term Public Investment Program, 2005-2010, containing the priority programs, activities and projects (PAPs) shall also be implemented in support of the MTPDP. Moreover, the Investment Coordinating Committee process of the NEDA Board shall be strengthened through greater transparency and timeliness of ICC review and approval process. Where LGU's autonomy is concerned, the devolution provisions of the Local Government Code (LGC) will be fully implemented.

**Managing the Country's Debts.** To manage the country's ballooning debt, the government will: maximize the use of official development assistance (ODA); implement a debt reduction plan by limiting guarantees for GOCC's; and pursue bond exchange to lengthen debt maturity and manage risk. These initiatives will be supported by the development of a risk management system by the Department of Finance.

The government will maximize the use of ODA by being more selective of the projects to be funded. The programs to be prioritized are those that will directly contribute to the 10-point development agenda and the MTPDP.