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Analysis of the President's Budget for 2013

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ABSTRACT

This study presents an evaluation of the National Expenditure Program for 2013. First, this paper projects that the fiscal targets set out in the Budget of Expenditures and Sources of Financing (BESF) for 2013 are likely to be met. Specifically, fiscal deficit is projected to be P9.6 billion lower than the BESF at PhP 231 billion, while government revenue is estimated to be equal to be PhP 1.8 trillion in 2013 which is also higher than the BESF projection. This is despite the expectation that the BOC collections and non-tax revenues will be just equal to the 2011 and 2012 levels. Additional revenues is thus sourced from the BIR collections, which is estimated to reach PhP 1.26 trillion in 2013, exceeding the President's Budget's estimate of PhP 1.24 trillion. Second, although a more balanced distribution of the budget between the social services and economic services sectors is emphasized in the 2013 National Expenditure Program, the services sector still accounts for more than half of the increase in expenditure program in 2013. Finally, the improving debt profile of the country will continue in 2013. National government borrowing will continue to be biased in favor of domestic borrowings.

Keywords: expenditure program, revenue program, financing program, tax effort, fiscal deficit, fiscal sustainability, budget share,

EXECUTIVE SUMMARY

This paper evaluates the President's Budget (PB) or the National Expenditure Program (NEP) for 2013. The assessment is composed of four parts: (i) an evaluation of the overall fiscal picture as projected in the 2013 Budget of Expenditures and Sources of Financing; (ii) an examination of its revenue program; (iii) an appraisal of the expenditure program embodied in the NEP; and (iv) an analysis of the financing program.

Overall Fiscal Position in Perspective. A combination of expenditure compression and increased tax reform resulting from the enactment of new tax measures in 2004/2005 resulted in a considerable improvement in the country's fiscal position and a contraction of national government outstanding debt in 2003-2007. Gains in tax effort, however, proved to be temporary given no improvement in tax administration. In 2011, the Bureau of Internal Revenue (BIR) exhibited creditable progress towards improving its tax effort, despite having no new tax measures during the first two years of the Aquino II administration. In addition to this, expenditures of the national government in 2011 and 2012 were significantly lower than the programmed levels. Fiscal deficit was thus trimmed down to 2.0% of GDP in 2011 and 2.3% of GDP in 2012, both lower than programmed levels. Consequently, outstanding national government debt was cut from 52.4% of GDP in 2010 to 50.9% in 2011 but increased to 51.4% in 2012.

This paper projects BIR collections to reach 1.26 trillion in 2013, exceeding the President's Budget's estimate of 1.24 trillion. This higher projection takes into account the passage of the amendments to the excise tax law on sin products which is expected to yield an additional revenue of PhP34 billion in 2013, as well as the assumption that the BIR is able to improve its tax effort the same manner it did in 2011 and 2012. On the other hand, this paper projects BOC collections and non-tax revenues to be equal to that in 2011 and 2012. BOC collections in 2013 is projected to be equal to 2.9% of GDP, lower that the projection of the President's Budget of 3.3% of GDP, while non-tax revenues is estimated to be equal to 1.6% of GDP, higher than the 1.1% of GDP projection of the President's Budget. This paper projects national government revenues to be equal to P1.8 trillion in 2013, P9.6 billion higher than the BESF's projection. As a corollary, the fiscal deficit estimated in this paper is PhP 9.6 billion lower than that of the BESF at PhP 231 billion.

In the medium term, debt sustainability analysis undertaken for this paper suggests that if the overall revenue effort were to increase by 0.2 percentage point of GDP yearly in 2014 onwards after rising by 0.9% of GDP in 2013 following the enactment of the new sin tax law, and if non-interest expenditures were to rise by 0.3 percentage point of GDP in 2014 onwards while assuming that (i) GDP will grow by 6% in 2013, 5.5% in 2014 and 5% yearly in 2015-2017, (ii) inflation remains steady at 4% yearly in 2013-2017, (iii) interest rate on government debt stays at the 2012/2013 level and (iv) the foreign exchange rate stays at PhP 41.50 to the dollar, then the level of fiscal deficit will initially rise from 1.2% of GDP in 2013 to 2.0% of GDP in 2014-2017. Despite said increase in the overall fiscal deficit during the period, the national debt stock is projected to exhibit a downward trajectory, going down 51.4% of GDP in 2012 to 47.5% in 2013 and 40.3% in 2017.

Alternatively, if there is a simultaneous reduction in the GDP growth rate by 1 percentage point, a 2 percentage point increase in interest rate and a PhP 2 depreciation in the foreign exchange rate given the same revenue and expenditure program, debt-to-GDP ratio will start to rise by 2016 after declining from 51.4% of GDP in 2012 to 47.8% in 2015. If, however, any of the aforementioned shocks were to occur singly, debt sustainability will still be attained, albeit the debt-to-GDP ratio will be higher.

Expenditure Program. The 2013 National Expenditure Program adopts the program budgeting approach, where a number of strategic programs that cuts across sectoral concerns of departments and agencies is identified. This is complemented by the zero-based budgeting (ZBB) approach to weed out wasteful programs and direct funds to programs that will benefit the people most. With the implementation of the 2013 National Expenditure Program, government also hopes to improve and consolidate its performance budgeting and performance management system.

The proposed national expenditure program (NEP) for 2013 under the President's Budget amounts to PhP 2.0 trillion, which is equal to 17.2% of the projected GDP for the year. About 62% of the proposed expenditure program for 2013 will be funded from new appropriations for various departments and agencies as well as for special purpose funds. The remaining 38% will be funded from automatic appropriations. However, a total of PhP 117.5 billion is proposed as unprogrammed appropriations in case the national treasury collects more than the revenue targets.

The proposed expenditure program for 2013 is PhP190 billion (or 10.5%) higher than the PhP1.8 trillion expenditure program for 2012. 53.1% of the increase in expenditure program is allocated for the social services, due to the high priority given by the administration to education (34.6%), health (5.7%), and other social services (12.8%), while 26.1% is earmarked for the economic services sectors. The remaining 21% is allocated to public administration (7.6%), other sectors not elsewhere classified including the Internal Revenue Allotment (12.9%), and national defense (0.6%).

The estimated national government spending in 2013 is imperceptibly higher than the 2012 level but lower than the Ramos and Estrada administration, which is expected given the fiscal consolidation that is programmed under the government's medium term fiscal framework which aims to reduce fiscal deficit in 2013. National government debt service in 2013 is lower compared to earlier period because of persistent downward trajectory of national government debt stock in 2004-2012, continuing appreciation of the peso, and decline in interest rates. Consequently, the expenditure program net of debt service appears to be slightly more expansionary in 2013 compared to the situation during the Ramos and Arroyo administrations.

Revenue Program. The Aquino II administration posted laudable gains in the overall revenue effort since it assumed office. These gains are most pronounced in the case of the BIR. BOC tax effort actually deteriorated in the first semester of 2011 and only partially recovered lost ground in the first semester of 2012. In the case of non-tax revenue effort, improvements were evident in the first and second semesters of 2011 but stagnated in 2012. Moreover, these gains are not enough to fully reverse the decline in national government revenue effort since 1997.

The amendment of the existing excise tax law on tobacco and alcoholic products is the only revenue measure that the Aquino administration has certified as urgent to date. Because the demand for cigarettes is relatively price inelastic, the expectation is that higher taxes will yield higher revenues in the near term while deterring smoking in the longer term. In December 2012, President Benigno C. Aquino signed Republic Act 10351 (An Act Restructuring the Excise Tax on Alcohol and Tobacco Products) into law. The additional revenue take from RA 10351 is estimated to be PhP 34 billion in 2013, PhP 43 billion in 2014, PhP 51 billion in 2015, PhP 57 billion in 2016 and PhP 64 billion in 2017.

Financing Program. The debt sustainability analysis used in this paper indicates that the fiscal deficit targets embodied in the 2012 President's Budget will result in a consistent reduction of the outstanding debt stock of the national government. Thus, the national government debt stock is projected to decline persistently from 54.8% of GDP in 2009 to 52.4% in 2010, 50.9% in 2011 and 51.4% in 2012.

Given the uncertainties in the international financial market, the financing of the national government aims to (i) shift the national government borrowing mix toward a 25:75 ratio in favor of domestic borrowing, and (ii) extend the maturities of existing debt. These changes are evident in the programmed borrowing mix in 2011-2012. These trends are expected to persist as the profile of national government borrowing in 2013 continues to be biased in favor of domestic borrowings. To wit, the share of domestic borrowing in total national government borrowing is programmed to be equal to 54.5% in 2013.

ANALYSIS OF THE PRESIDENT'S BUDGET FOR 2013

*Rosario G. Manasan**

1. INTRODUCTION

The purpose of this short note is to evaluate the President's Budget (PB) or the National Expenditure Program (NEP) for 2013. The assessment is composed of four parts: (i) an evaluation of the overall fiscal picture as projected in the 2013 Budget of Expenditures and Sources of Financing; (ii) an examination of its revenue program; (iii) an appraisal of the expenditure program embodied in the NEP; and (iv) an analysis of the financing program.

The national government's fiscal position in any given year (by showing whether the government has a surplus or a deficit) provides an overall measure of the fiscal health of the nation. Given this perspective, **Section 2** evaluates the likelihood that the estimate of the fiscal deficit that is targeted in the President's Budget will be met. At the same time, it also assesses if the projected fiscal position will lead to greater fiscal instability.

Section 3 assesses the Aquino (II) administration's expenditure priorities relative to its policy pronouncements and relative to the overarching imperative for inclusive growth. On the other hand, **Section 4** presents an analysis of the present administration's revenue program in support of the 2012 President's Budget while **Section 5** provides an assessment of the government's borrowing program.

2. OVERALL FISCAL POSITION IN PERSPECTIVE

The national government fiscal position deteriorated quite rapidly and continuously, from small surpluses in 1996 and 1997 to deficits that grew from 1.9% of Gross Domestic Product (GDP) in 1998 to an average of 3.7% in 1999-2001 and 5.0% in 2002 following the Asian financial crisis (**Figure 1**).A combination of expenditure compression and increased tax effort resulting from the enactment of new tax measures in 2004/ 2005[1] subsequently enabled the national government to achieve considerable progress in improving its fiscal position in 2003-2007, trimming down the overall fiscal deficit gradually from 4.4% of GDP in 2003 to 0.2% in 2007.

Thus, national government outstanding debt contracted from 74.4% of GDP in 2004 to 53.9% in 2007 (**Figure 2**). If contingent liabilities are included, national

[1] Republic Act (RA) No. 9334, which amended excise tax rates on sin products, was legislated in late 2004 and took effect in January 2005. On the other hand, Republic Act No. 9337, otherwise known as the Reformed VAT Law, was legislated in the first half of 2005 and took effect in the last quarter of that year. RA 9337 not only expanded the coverage of the VAT but it also provided for an increase in the gross receipts tax (on royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income) of banks and non-bank financial intermediaries from 5% to 7% and a temporary increase in the corporate tax rate from 32% to 35%. Moreover, RA 9337 also enabled the President to authorize the increase in the VAT rate from 10% to 12% in January 2006.

government outstanding debt went down from 90.7% of GDP in 2004 to 60.9% in 2007.

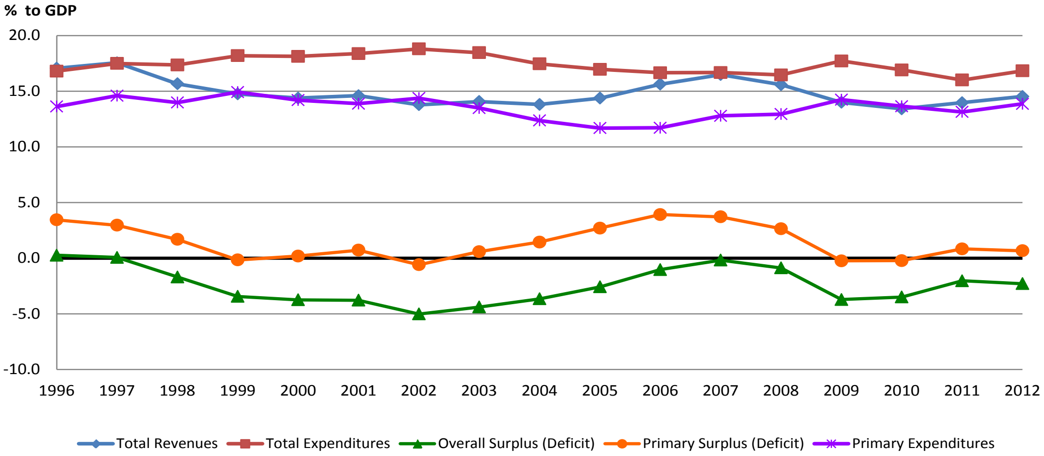

Figure 1. National Government Fiscal Performance, 1996-2012

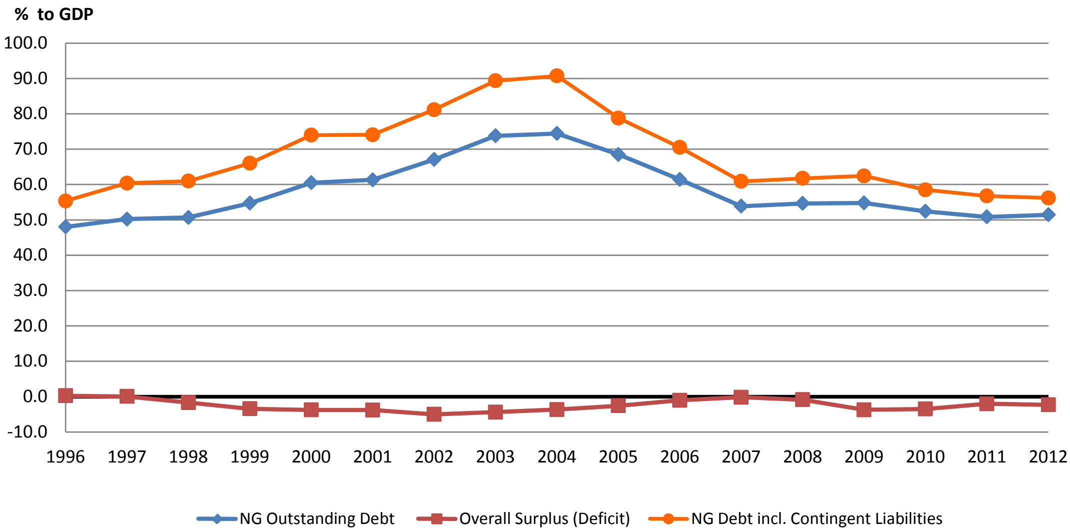

Figure 2. NG Outstanding Debt (% to GDP), 1996-2012

However, the gains in the tax effort proved to be temporary given no apparent improvement in tax administration in 2007-2009, the transitory nature of revenue impact of the amendment of the excise tax rates on sin products under RA 9334, and programmed reduction in the corporate income tax rate starting in 2009 under RA 9337. Consequently, the tax-to-GDP ratio deteriorated persistently from 13.7% of GDP in 2006 to 12.2% in 2010. Furthermore, when privatization proceeds are netted out, total revenue effort of the national government, likewise, decreased in 2007-2010. On the other hand, total national government spending (when measured relative to GDP) expanded from 16.5% of GDP in 2008 to 17.7% of GDP in 2009 and 16.9% in 2010, largely because of the government's expansionary fiscal stance in response to the 2008 global financial and economic crisis.

As a result, the fiscal deficit went up once again from 0.2% of GDP in 2007 and 0.9% in 2008 to 3.7% in 2009 and 3.5% in 2010. Moreover, the national government incurred small primary deficits in 2009 and 2010, indicating that the government had to borrow some more in order to cover its interest payments. As a result, outstanding debt of the national government rose from 53.9% of GDP in 2007 to 54.7% of GDP in 2008 and 54.8% in 2009 before declining to 52.4% in 2010 (**Figure 2**). If contingent liabilities were included, total outstanding debt went up from 60.9% of GDP in 2007 to 61.7% in 2008 and 62.4% in 2009 before contracting to 58.5% in 2010.

The Bureau of Internal Revenue (BIR) exhibited creditable progress towards improving its tax effort in 2011, despite the fact that no new tax measures were implemented during the first two years of the Aquino II administration. Thus, BIR tax effort went up from 9.1% of GDP in 2010 to 9.5% in 2011 and 10.0% in 2012 (**Table 1**). Similarly, non-tax revenue effort went up from 1.3% of GDP in 2010 to 1.6% in 2011-2012. In contrast, the Bureau of Customs failed to show similar success in improving its tax effort as BOC collections contracted from 2.9% of GDP in 2010 to 2.7% in 2011 and 2012. Nonetheless, overall revenue effort of the national government rose from 13.4% in 2010 to 14.0% in 2011 and 14.5% in 2012 as the expansion in BIR tax effort and non-tax revenue effort swamped the contraction in BOC tax effort in 2010-2012.

On the other hand, national government expenditures were significantly lower than programmed in 2011 largely because of delays in the implementation of projects as the new administration reviewed and at times even cancelled the contracts of many infrastructure projects[2], and partly because of lower interest payments due to the lower-than-projected foreign exchange rate and interest rate. To wit, national government expenditures stood at 16.0% of GDP in 2011, more than 1.2 percentage points of GDP lower than programmed and 0.9 percentage point of GDP lower than the 2010 level[3]. National government expenditures continue to be below the programmed level in 2012, albeit to a smaller degree than in the previous year. To wit, actual national government expenditures was equal to 16.8% of GDP in 2012 compared to the programmed level of 17.4% of GDP (**Table 1**). Thus, the government was able to trim down the fiscal deficit to 2.0% of GDP in 2011 (more than 1 percentage point lower than the 3.1% level that was originally programmed) and 2.3% of GDP in 2012 (lower than the programmed level but higher than the 2011 level). Consequently, outstanding national government debt was cut from 52.4% of GDP in 2010 to 50.9% in 2011 but increased to 51.4% in 2012 (**Figure 2**).

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[2] A PCIJ report showed that efforts to improve the procurement process at the DPWH yielded significant cost savings (Landingin 2012). For instance, it found that the contract price for some 14 projects that cancelled in July 2010 and which were subsequently re-bidded was on average 34% lower than the original cost. The report also found indications that the bidding/ procurement process at the DPWH has become more competitive. In particular, the study reveals that the average number of bidders for projects worth PhP 50 million and more rose from 1.3 under the Arroyo administration to 4.4 under the Aquino administration while that for projects worth less than PhP 50 million increased from 1.3 to 2.4. Also, the difference between the authorized budget ceiling (ABC) and the lowest bid for larger projects went up from 4% under the Arroyo administration to 11% under the Aquino administration while the difference between the ABC and the lowest bid for smaller projects rose from 1% to 5%.

[3] National government underspending (i.e., spending below the programmed level) in 2011 has contributed to the lackluster economic growth during that year.

Table 1. National Government Fiscal Position, 2010-2013

Particulars	Actual 2010 (PhP B)	Actual 2010 (% GDP)	BESF Program 2011 a/ (PhP B)	BESF Program 2011 (% GDP)	Actual 2011 (PhP B)	Actual 2011 (% GDP)	Actual less Program (PhP B)	BESF Program 2012 (PhP B)	BESF Program 2012 (% GDP)	Actual 2012 (PhP B)	Actual 2012 (% GDP)	Actual less Program (PhP B)	BESF Program 2013 (PhP B)	BESF Program 2013 (% GDP)	Author's Projections 2013 (PhP B)	Author's Projections 2013 (% GDP)	Difference[b/] 2012
Revenues	**1,207.9**	**13.4**	**1,411.3**	**14.5**	**1,359.9**	**14.0**	**(51.4)**	**1,560.6**	**14.8**	**1,534.9**	**14.5**	**(25.7)**	**1,780.1**	**15.3**	**1,789.7**	**15.4**	**9.6**
Tax Revenues	*1,093.6*	*12.1*	*1,273.2*	*13.1*	*1,202.1*	*12.3*	*(71.2)*	*1,427.4*	*13.5*	*1,361.1*	*12.9*	*(66.4)*	*1,651.3*	*14.2*	*1,598.2*	*13.7*	*(53.1)*
BIR	822.6	9.14	940.0	9.7	924.1	9.49	(15.9)	*1,066.1*	10.1	1,057.9	10.0	(8.2)	1,238.6	10.6	1,245.7	10.7	7.1
BOC	259.2	2.9	320.0	3.287	265.1	2.723	(54.9)	*347.1*	3.3	289.9	2.7	(57.2)	397.3	3.4	337.9	2.9	(59.4)
Other Offices	11.8	0.1	13.2	0.1	12.8	0.1	(0.4)	*14.2*	0.1	13.3	0.1	(0.9)	15.4	0.1	14.7	0.1	(0.7)
Non-Tax Revenues	*113.9*	*1.3*	138.1	*1.418*	*157.6*	*1.619*	19.6	*133.2*	*1.3*	173.8	1.644	40.6	*128.9*	*1.1*	*191.6*	*1.6*	*62.7*
of which:																	
BTr Income	54.3	0.6	69.0	0.7	75.2	0.8	6.3	*63.3*	0.6	84.1	0.8	20.8	57.4	0.5	92.7	0.8	35.3
Privatization	0.9	0.0	6.0	0.1	0.9	0.0	(5.1)	*2.0*	0.0	8.3	0.1	6.3	2.0	0.0	2.0	0.0	0.0
Disbursements	**1,522.4**	**16.9**	**1,711.3**	**17.6**	**1,557.7**	**16.0**	**(153.6)**	**1,839.7**	**17.4**	**1,777.8**	**16.8**	**(62.0)**	**2,021.1**	**17.3**	**2,021.1**	**17.3**	**0.0**
of which:																	
Interest Payments	294.2	3.3	321.6	3.3	279.0	2.9	(42.6)	317.7	3.0	312.8	3.0	(4.9)	333.9	2.9	333.9	2.9	0.0
Net Lending	9.3	0.1	23.0	0.2	18.1	0.2	(4.9)	23.0	0.2	27.4	0.3	4.4	26.5	0.2	26.5	0.2	0.0
Total Disbursements less interest	1,228.1	13.6	1,389.7	14.3	1,278.7	13.1	(111.0)	*1,522.1*	14.4	1,465.0	13.9	(57.1)	1,687.2	14.5	1,687.2	14.5	0.0
Overall Surplus/ (Deficit)	**(314.5)**	**(3.5)**	**(300.0)**	**(3.1)**	**(197.8)**	**(2.0)**	**102.2**	**(279.1)**	**(2.6)**	**(242.8)**	**(2.3)**	**36.3**	**(241.0)**	**(2.1)**	**(231.4)**	**(2.0)**	**(9.6)**
Primary Surplus/ (Deficit)	**(20.2)**	**(0.2)**	**21.6**	**0.2**	**81.2**	**0.8**	**59.6**	**38.5**	**0.4**	**70.0**	**0.7**	**31.4**	**92.9**	**0.8**	**102.5**	**0.9**	**(9.6)**

[a/] based on 2012 BESF

[b/] Difference = Author's projections less BESF targets

National Government Fiscal Program for 2013. The President's Budget assumes that the BIR tax revenues will grow from PhP 1.06 trillion in 2012 to PhP 1.24 trillion in 2013. In contrast, this paper projects BIR collections to reach PhP 1.26 trillion in 2013 (**Table 1**). This higher projection assumes that the BIR is able to improve its tax effort by another 0.4 percentage points of GDP in 2013 in the same manner it did in 2011 and 2012. It also takes into account the passage of the amendments to the excise tax law on sin products which is expected to yield an additional revenue of PhP 34 billion in 2013.[4]

The President's Budget projects that BOC collections will reach PhP 397 billion or 3.3% of GDP[5] in 2013. In contrast, this paper projects BOC collections to be equal to Php 338 billion or 2.9% of GDP, equal to actual BOC effort in 2010.

The President's Budget projects non-tax revenues to be equal to PhP 129 billion or 1.1% of GDP in 2013. In comparison, this paper projects non-tax revenues of the national government to be equal to PhP 192 billion or 1.6% of GDP, equal to the actual tax effort in 2011 and 2012.

In summary, this paper projects total national government revenues to be equal to PhP 1.8 trillion (or 15.4% of GDP) in 2013. This number is PhP 9.6 billion higher than the BESF's projection. As a corollary, this paper projects that the fiscal deficit is PhP 9.6 billion lower than that of the BESF at PhP 231 billion (or 2.0% of GDP).[6]

Fiscal sustainability in the medium term. Fiscal deficits *per se* are not bad. However, persistently large fiscal deficits may lead to fiscal instability. This is so because as government debt accumulates over time, interest payments on the debt may increase as the government pays interest not only on debt that it had in the past but also on the new debt that was issued to cover the deficit of the current year. This development results in even larger fiscal deficits and even higher levels of government debt stock, thus leading to an explosive situation where fiscal deficit feeds on itself. In this subsection, the sustainability of the fiscal policy is evaluated in terms of its ability to stabilize the ratio of government debt to GDP.

Anand and van Wijbergen (1989), Catsambas and Pigato (1989) and Fedelino et al. (2009) have established that the change in the debt-to-GDP ratio depends on the interrelationship amongst the GDP growth rate, the domestic real interest rate, the rate of inflation, the foreign interest rate, the exchange rate, the stock of domestic and foreign government debt at the start of the period, and the primary deficit. The said relationship suggests that the higher the domestic real interest rate and the lower the GDP growth rate, the more likely is the rise in the debt-to-GDP ratio. Similarly, the higher the foreign interest rate, the higher the

[4] It should be emphasized that the BESF revenue projections were reckoned relative to higher GDP growth projections for both 2012 and 2013. The BESF assumed that GDP will grow in nominal terms by 10.3% in 2012 and by 11.3% in 2013. As it turned out, GDP actually grew by 8.6% in nominal terms in 2012. In comparison, this paper assumes that GDP will grow by 6% in real terms while inflation is assumed to be equal to 4% in 2013. Thus, GDP is projected to grow by 10.2% in nominal terms in 2013.

[5] This ratio is reckoned relative to the BESF's GDP projection. Note that the figure shown in **Table 1** is higher because of the lower GDP projection used in this paper.

[6] This paper takes the expenditure projection of the BESF for 2013 as a given.

depreciation of the exchange rate. The lower the domestic inflation rate, the greater is the tendency of the debt-to-GDP ratio to increase.

The debt sustainability analysis that was undertaken for this paper suggests that if the overall tax effort gradually improves to 16% of GDP in 2016, and if aggregate national government expenditures gradually expands to 18% of GDP in the same year as indicated in the government's medium term fiscal program, national government debt-to-GDP ratio will contract from 51.4% of GDP in 2012 to 41.7% in 2016 while the fiscal deficit is maintained at about 2% of GDP in 2014-2016. In more specific terms, if the overall revenue effort were to increase by 0.2 percentage point of GDP yearly in 2014 onwards after rising by 0.9% of GDP in 2013 following the enactment of the new sin tax law, and if non-interest expenditures were to rise by 0.3 percentage point of GDP in 2014 onwards while assuming that (i) GDP will grow by 6% in 2013, 5.5% in 2014 and 5% yearly in 2015-2017, (ii) inflation remains steady at 4% yearly in 2013-2017, (iii) interest rate on government debt stays at the 2012/2013 level and (iv) the foreign exchange rate stays at PhP 41.50 to the dollar, then the level of fiscal deficit will initially rise from 1.2% of GDP in 2013 to 2.0% of GDP in 2014-2017 (**Table 2**). Despite said increase in the overall fiscal deficit during the period, the national debt stock is projected to exhibit a downward trajectory, going down 51.4% of GDP in 2012 to 47.5% in 2013 and 40.3% in 2017.

Table 2. Debt Sustainability Simulation, 2013-2017

	2011 actual	2012 actual	2013 projected	2014 projected	2015 projected	2016 projected	2017 projected
Assume:							
NG total revenues (in billion pesos)	1,359.9	1,534.9	1,789.7	1,990.9	2,203.8	2,438.9	2,698.7
% to GDP	14.0	14.5	15.4	15.6	15.8	16.0	16.2
Non-interest expd (in billion pesos)	1,278.7	1,465.0	1,687.2	1,895.9	2,119.2	2,367.5	2,643.6
% to GDP	13.1	13.9	14.5	14.8	15.2	15.5	15.9
Interest payments (in billion pesos)	279.0	312.8	333.9	344.5	360.1	377.2	396.3
% to GDP	2.9	3.0	2.9	2.7	2.6	2.5	2.4
Implied fiscal deficit & NG outstanding debt:							
Fiscal deficit (in billion pesos)	197.8	242.8	140.8	249.6	275.5	305.8	341.2
% to GDP	2.0	2.3	1.2	2.0	2.0	2.0	2.0
NG outstanding debt (in million pesos)	4,951.2	5,437.1	5,530.5	5,780.0	6,055.5	6,361.4	6,702.6
% to GDP	50.9	51.4	47.5	45.2	43.4	41.7	40.3

a/ assumes NG total revenues will increase to 16% of GDP in 2016% ; non-interest expenditures to be equal to 14.5% of GDP in 2013 rising by 0.35% of GDP every year from 2014 onwards; GDP will grow by 6% in 2013, 5.5% in 2014 and 5% yearly in 2015-2017; inflation remains steady at 4% yearly in 2013 onwards; average interest rate on government debt to be equal to the average in 2012 and 2013; foreign exchange rate to be equal to PhP 41.50 to the dollar in 2013-2017

Alternative simulations show that the debt-to-GDP ratio will start to rise by 2016 after declining from 51.4% of GDP in 2012 to 47.8% in 2015 if there is a simultaneous reduction in the GDP growth rate by 1 percentage point, a 2 percentage point increase in interest rate and a PhP 2 depreciation in the foreign exchange rate given the revenue and expenditure program described above. On the other hand, if any of the aforementioned shocks were to occur singly, debt sustainability will still be attained, albeit the debt-to-GDP ratio will be higher than shown in **Table 2**.

3. EXPENDITURE PROGRAM

The President's Budget Message for 2013 very clearly states that the 2013 Budget is an empowerment budget. It views the 2013 budget as "a crucial step in the government's pursuit of good governance – governance that will give our impoverished countrymen the opportunity to lift themselves out of their situations." To this end, it envisions that the budget will empower the people, particularly the poor, by creating more opportunities for public participation in governance; by investing significantly in the people's capabilities, by prioritizing funding for public services that educate the youth, ensure a healthier citizenry, provide jobs and empower each Filipino to participate in economic activity.

The 2013 National Expenditure Program is said to further cement the administration's commitment to the President's Social Contract with the Filipino people which was forged in 2010. The Social Contract (as operationalized by Executive Order No. 43) defines five key result areas (KRAs): (i) transparent, accountable and participatory governance, (ii) poverty reduction and empowerment of the poor and vulnerable, (iii) rapid, inclusive and sustained economic growth, (iv) just and lasting peace and rule of law, and (v) integrity of the environment and climate change adaptation and mitigation.

The 2013 National Expenditure Program is also said to sustain the administration's results-orientation. To support this, it adopts the program budgeting approach. Under this approach, it has identified a number of strategic programs that cuts across sectoral concerns of departments and agencies and whose funding and implementation require greater coordination, cooperation and collaboration. To complement the program budgeting approach, government continues to apply the zero-based budgeting (ZBB) approach to foster increased efficiency and effectiveness in government spending. In particular, the ZBB is used to weed out wasteful programs and direct government funds to programs, activities, and projects (PAPs) that will benefit the Filipino people most.

With the implementation of the 2013 National Expenditure Program, government also hopes to improve and consolidate its performance budgeting and performance management system. First, Administrative Order No. 25 ("Creating an Inter-Agency Task Force on the Harmonization of National Government Performance Monitoring, Information and Reporting Systems") aims to streamline and simplify all existing monitoring and reporting requirements and processes into a single Results-Based Performance Management System (RBPMS). Second, the Department of Budget and Management (DBM) will deepen the implementation of the Organizational Performance Indicator Framework (OPIF) by requiring all departments and agencies to review and recast, if necessary, their major final outputs (MFOs) and performance targets, so as to better link them with the strategic objectives of the Social Contract. Third, government has also adopted a performance-based incentive system that aims to reward the good performance of public servants, thereby giving them more impetus to pursue excellence in their respective jobs. Fourth, the General Appropriations Act (GAA) will serve as the budget release document starting with the implementation of the 2013 budget. This move is aimed at minimizing delays in project implementation due to bottlenecks in the processing of requests for the release of allotments. In line with this, government agencies have been advised to conduct pre-procurement activities in the fourth quarter of 2012, in anticipation of Congress' approval of this proposed Budget so that contracts can then be awarded on the first working day of the following fiscal year. Fifth, all appropriations will have a validity of one year starting in 2013. This measure is meant to improve the predictability of the budget execution process as the system moves away from a policy that allows the carry-over of appropriations for maintenance expenditures and capital outlays to the following fiscal year. Sixth, the administration introduced the bottom-up budgeting approach (BUB) in order to provide the grassroots with a voice in the allocation of public funds. Under the BUB, the 609 poorest municipalities were asked to develop Local Poverty Reduction Action Plans with local communities and civil society organizations in their jurisdictions. These plans were then submitted to the national budget for inclusion in the 2013 budget. A total of 593 of these municipalities submitted plans for community-determined, anti-poverty interventions (such as agriculture and fisheries support, potable water supply, public healthcare, and basic education) worth a total of P8.37 billion.

3.1. Spending Priorities in the Proposed President's Budget for 2013

The proposed national expenditure program (NEP) for 2013 under the President's Budget amounts to PhP 2.0 trillion. About 62% of the proposed expenditure program for 2013 will be funded from new appropriations for various departments and agencies as well as for special purpose funds[7]. The remaining 38% will be funded from automatic appropriations[8]. However, a total of PhP 117.5 billion is proposed as unprogrammed appropriations (i.e., standby spending authority) in case the national treasury collects more than the revenue targets (**Table 3**).

Table 3. 2013 National Budget Program (in million pesos)

	Amount	% dist.
New General Appropriations		
Departments and Agencies	959,927	
Special Purpose Funds	408,402	
Total, New General Appropriations	1,368,329	
Less: Unprogrammed Appropriations	117,548	
Total, Programmed New Appropriations	1,250,781	62.4
Automatic Appropriations	755,219	37.6
Total Expenditure Program	2,006,000	100.0

Source: 2013 National Expenditure Program

The proposed expenditure program for 2013 is PhP 190 billion (or 10.5%) higher than the PhP 1.8 trillion expenditure program for 2012 (**Table 4**). Of this amount, more than half (PhP 100.5 billion or 53.1%) is allocated for the social services sectors, a clear indication of the high priority given by the administration to education, health and social services, in general. In contrast, PhP 49.4 billion (or 26.1%) is earmarked for the economic services sectors.

[7] Special Purpose Funds include the Miscellaneous Personnel Benefits Fund (MPBF), Retirement Benefits Fund (RBF), Priority Development Assistance Fund (PDAF), Budgetary Support to Government Corporations (BSGC), and Allocation to Local Government Units (ALGU).

[8] Automatic appropriations refer to appropriations programmed annually or for some other period prescribed by law, by virtue of outstanding legislation which does not require periodic action by Congress. They include debt servicing (i.e., interest payments and net lending); internal revenue allocation (IRA), government contribution for employees' retirement and life insurance premiums, special accounts in the general fund, grant proceeds, and donations.

Table 4. Comparative Analysis of National Expenditure Program, by Sector, 2011-2013

	Level (in million pesos)			Difference (in million pesos)		Growth rate		Difference - % dist a/	
	2011	2012 b/	2013 b/	2011-2012	2012-2013	2011-2012	2012-2013	2011-2012	2012-2013
GRAND TOTAL	1,580,017	1,816,000	2,006,000	235,983	190,000	14.9	10.5	129.8	100.4
Total economic services	262,214	288,028	337,389	25,814	49,361	9.8	17.1	14.2	26.1
Agriculture	44,752	62,437	75,137	17,685	12,700	39.5	20.3	9.7	6.7
Agrarian reform	15,596	19,111	21,618	3,515	2,507	22.5	13.1	1.9	1.3
Natural resources	14,089	18,754	24,354	4,665	5,599	33.1	29.9	2.6	3.0
Industry	4,987	5,527	6,235	540	708	10.8	12.8	0.3	0.4
Trade	1,225	689	678	(536)	(10)	(43.8)	(1.5)	(0.3)	(0.0)
Tourism	2,181	2,245	3,569	64	1,324	2.9	59.0	0.0	0.7
Power & energy	17,482	11,800	11,323	(5,682)	(477)	(32.5)	(4.0)	(3.1)	(0.3)
Water resources devt.	107	760	66	653	(694)	609.8	(91.3)	0.4	(0.4)
Transportation & communication	155,927	162,454	190,884	6,527	28,430	4.2	17.5	3.6	15.0
Other economic services	5,869	4,251	3,526	(1,618)	(725)	(27.6)	(17.1)	(0.9)	(0.4)
Total social services	377,685	402,665	503,193	24,981	100,528	6.6	25.0	13.7	53.1
Education	256,152	278,000	343,522	21,848	65,522	8.5	23.6	12.0	34.6
Health	40,654	47,794	58,524	7,139	10,730	17.6	22.5	3.9	5.7
Soc. security, labor/ emp., & soc. welfare serv.	58,542	69,847	77,881	11,305	8,034	19.3	11.5	6.2	4.2
Housing & community devt.	22,337	7,025	23,266	(15,312)	16,241	(68.5)	231.2	(8.4)	8.6
National defense	102,249	112,708	113,871	10,459	1,163	10.2	1.0	5.8	0.6
Total public services	242,931	243,382	257,037	451	13,655	0.2	5.6	0.2	7.2
Public administration	120,575	103,554	117,947	(17,021)	14,393	(14.1)	13.9	(9.4)	7.6
Peace and order	122,355	139,828	139,090	17,472	(737)	14.3	(0.5)	9.6	(0.4)
Others NEC	315,942	436,110	460,608	120,168	24,498	38.0	5.6	66.1	12.9
Debt service	278,996	333,107	333,902	54,111	795	19.4	0.2	29.8	0.4
MEMO ITEM:									
IRA	286,944	273,310	302,304	(13,635)	28,994	(4.8)	10.6	(7.5)	15.3
Grand total - debt service	1,301,021	1,482,893	1,672,098	181,872	189,205	14.0	12.8	100.0	100.0
Grand Total-debt service-LGU share	1,023,773	1,184,028	1,382,059	160,255	198,031	15.7	16.7	88.1	104.7
Defense & peace & order	224,604	252,535	252,961	27,931	426	12.4	0.2	15.4	0.2
Infrastructure	173,516	175,013	202,273	1,498	27,259	0.9	15.6	0.8	14.4

a/ as % of total expenditure net of debt service
b/ allocation for Miscellaneous Personnel Benefits Fund and Pension and Gratuity Fund are distributed to the various agencies in direct proportion to their 2011 breakdown across agencies
Source of basic data: Budget of Expenditures and Sources of Finance

The remaining 21% of the increase in the aggregate expenditure program net of debt service is allocated to public administration (7.6%), other sectors not elsewhere classified including the Internal Revenue Allotment (12.9%), and national defense (0.6%).

Social services sectors. The growth rate in the aggregate allocation for all the economic services sectors in 2013 (25%) is fastest among the major expenditure groups. As indicated earlier, the social services sectors combined have the biggest share in the overall increase in the aggregated expenditure program in 2012.

Education

The education sector has the largest share in the increment in the total expenditure program of the national government net of debt service in 2013. To wit, national government spending on the education sector is programmed to increase by PhP 65.5 billion (or 23.6%) from PhP 278.0 billion in 2012 to PhP 343.5 billion in 2013. The increase in the programmed spending on the education sector accounts for 34.6% of the aggregate increase in total obligations program net of debt service in 2013 (**Table 4**).

The bulk of the additional allocation earmarked for the education sector (PhP 53.4 billion or 81%) is meant for the Department of Education (DepEd), making it the top gainer among the various departments in the 2012 Expenditure Program. Thus, the budget of the DepEd is programmed to rise from PhP 238.8 billion in 2012 to PhP 292.7 billion in 2013 (**Table 5a**).[9] The increased allocation for the DepEd in 2012 (as in the previous year) is directed at closing the shortages in crucial resources needed to deliver quality basic education, including an allocation of PhP 15.7 billion for classroom construction, and PhP 15.3 billion for the hiring of 61,500 new teachers, and increased school MOOE.

The PhP 53.4 billion increase in the proposed budget of DepEd in 2012 is more than two-and-a-half times the increase in its budget in 2011. Given the sustained support given to the DepEd, significant gains have been achieved in closing the input gaps (teachers, textbooks, seats, in particular) in public elementary and secondary schools. However, the classroom deficit remains to be addressed completely. Despite the huge increases in the DepEd budget in recent years, the Philippines' total allocation for basic education (which is estimated to be equal to 2.5% of GDP in 2012) still compares unfavorably with those of its neighbors in Southeast Asia.[10]

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[9] These numbers are inclusive of the automatic appropriation for the retirement and life insurance premium of personnel, the share of the department in the miscellaneous personnel benefits fund including the amount earmarked for the salaries of unfilled positions, the allocation for classroom construction included in the budget of the Department of Public Works and Highways.

[10] Indonesia, Malaysia, Thailand and Vietnam are estimated to spend 4.1% of GDP on the average in 2002-2007 on basic education (World Bank 2010).

Table 5a. Top Gainers in 2013 National Expenditure Program, Selected Agencies (continuation)

	Level (in million pesos)			Difference (in million pesos)		growth rate	
	2011	2012 b/	2013 b/	2011-2012	2012-2013	2011-2012	2012-2013
Total Social Services	377,685	402,665	503,193	24,981	100,528	6.6	25.0
Education	256,152	278,000	343,522	21,848	65,522	8.5	23.6
DepEd	218,817	238,800	292,218	19,983	53,418	9.1	22.4
SUCs	27,999	27,751	37,442	(249)	9,691	(0.9)	34.9
CHED	2,003	2,286	3,654	283	1,368	14.1	59.8
Health	40,654	47,794	58,524	7,139	10,730	17.6	22.5
DOH	30,223	44,308	55,370	14,085	11,063	46.6	25.0
Soc. Security, Labor/ Emp., & Soc. Welfare Serv.	58,542	69,847	77,881	11,305	8,034	19.3	11.5
DSWD	38,037	48,855	56,072	10,817	7,217	28.4	14.8
DOLE	2,363	2,508	3,067	144	560	6.1	22.3
Housing & Com. Devt.	22,337	7,025	23,266	(15,312)	16,241	(68.5)	231.2
NHA	20,001	5,631	21,373	(14,370)	15,742	(71.8)	279.6
NHMFC	500	500	1,000	0	500	0.0	100.0
Total Public Services	242,931	243,382	257,037	451	13,655	0.2	5.6
Public Administration	120,575	103,554	117,947	(17,021)	14,393	(14.1)	13.9
DILG	3,307	4,382	7,138	1,075	2,755	32.5	62.9
ARMM	12,932	12,469	14,110	(463)	1,641	(3.6)	13.2
National Statistics Office	1,430	1,848	3,247	418	1,399	29.2	75.7
COA	5,430	7,237	8,168	1,807	931	33.3	12.9
Peace and Order	122,355	139,828	139,090	17,472	(737)	14.3	(0.5)
Bureau of Fire Protection	8,936	9,566	10,186	630	620	7.1	6.5
Bureau of Jail Management and Penology	5,679	5,551	6,171	(127)	619	(2.2)	11.2
Judiciary	14,114	13,934	15,722	(180)	1,787	(1.3)	12.8
Others, n.e.c.	315,942	436,110	460,608	120,168	24,498	38.0	5.6
IRA	286,944	273,310	302,304	(13,635)	28,994	(4.8)	10.6
Debt Service	278,996	333,107	333,902	54,111	795	19.4	0.2

a/ as % of total expenditure net of debt service

b/ allocation for Miscellaneous Personnel Benefits Fund and Pension and Gratuity Fund are distributed to the various agencies in direct proportion to their budgets for personal services

Source of basic data: Budget of Expenditures and Sources of Finance

On the other hand, the aggregate budget for State Universities and Colleges (SUCs) is programmed to rise by PhP 9.7 billion in 2013, primarily in support of the requirements for the Roadmap for Higher Education Reform, increased allocation for MOOE, and the higher salaries and wages under SSL3. In addition, an increase of another PhP 1.4 billion is available under the budget of the Commission of Higher Education for a program that will enhance the research and ICT capabilities of SUCs.

Under consideration is the phasing out of SUCs programs that are not part of their mandates, or those that are duplicative. At the same time, the normative funding formula for SUCs is currently being revised to better promote and reward quality instruction, research and extension services and improve the mechanism for public financing of research in universities, an important public good produced in higher education institutions.

Health

In 2013, national government spending on the health sector is programmed to increase by PhP 11 billion from its 2012 level. In particular, the allocation for the Department of Health

(DOH) is programmed to increase by 25% from PhP 44.3 billion in 2012 to PhP 55.4 billion in 2013, making the DOH the fifth largest gainer among the various government departments in the 2013 National Expenditure Program (**Table 5a**). Arguably, the higher budget support for the DOH in 2013 reflects the administration's focus on advancing public health and universal health care.

The Health Facilities Enhancement Program (HFEP) accounts for the bulk (or PhP 8.5 billion) of the increase in the DOH budget in 2013. Thus, the allocation for the HFEP increases from PhP 5.1 billion in 2012 to PhP 13.6 billion in 2013. The HFEP is meant to be used for the rehabilitation and construction of 2,243 RHUs and 403 Provincial and District hospitals, and so as improve the delivery of basic health services nationwide.

As indicated in Manasan (2011a), the importance of the upgrading of rural health units (RHUs) and barangay health stations (BHSs) to serve as basic emergency obstetric and neonatal care (BEmONC) facilities, and upgrading of selected LGU provincial and district hospitals to serve as comprehensive emergency obstetric and neonatal care (CEmONC) facilities, is premised on the need to treat every delivery as an emergency case and the importance of facility-based deliveries in reducing the maternal mortality rate. The upgrading of RHUs/ BHSs and selected LGU hospitals is also expected to improve their "gatekeeping" function and, thereby, reduce hospital patient case load at the tertiary level (Manasan and Cuenca 2010). At the same time, the HFEP is best seen as a critical component of the DOH health care financing strategy (DOH 2010) (i) by enhancing the ability of national government and LGU health facilities to provide quality and appropriate services that are responsive to the priority health needs of their catchment population, and (ii) by enabling them to operate on a more sustainable basis by securing appropriate PhilHealth accreditation.

The 2013 National Expenditure Program also increases the budget for the operation of DOH hospitals by PhP 1.5 billion. Of this amount, some PhP 800 million is on account of special hospitals while PhP 700 million is on account of DOH regional hospitals. Thus, the aggregate budget of special hospitals will increase by 24% while that of DOH regional hospitals will rise by 15% in 2013.

On the other hand, the budget of the local health assistance including public health program support is increased by PhP 1.8 billion in 2013. Thus, the allocation for this budget item will increase by 170% during the year. Meanwhile, the allocation for the Doctors to the Barrios and Rural Health Practice Program is increased by more than PhP 1 billion in 2013. This move will allow the DOH to deploy 131 doctors, 22,500 nurses and 4,379 midwives to rural health centers and government hospitals. Also, the budget support for the Indigent or Sponsored Program of the National Health Insurance Program is increased by PhP 500 million in 2013. This will allow the DOH to fund the annual premium subsidy of the PhP 5.2 million indigent families identified under the National Household Targeting System (NHTS). It is notable that part of the additional revenues that will be generated from the recently enacted reformed sin tax law will be used to cover the health insurance premium of the families of some 5.6 million informal sector workers in partnership with LGUs.

Housing and community services

Some 8.0% of the total increment in the national government expenditure program net of debt services in 2013 will go to housing and community development services. In particular, the budgetary support for the National Housing Authority (NHA) will increase by PhP 15.7 billion in 2013, making the NHA the fourth biggest gainer from the 2013 National Expenditure Program (**Table 5a**). Thus, the budgetary support for the NHA will post an almost four-fold increase to PhP 21.7 billion in 2013 from PhP 5.6 billion in 2012. Some PhP 10 billion of the budgetary support for the NHA is intended for the resettlement of an estimated 20,000 informal settlers living in danger zones (e.g., creeks, rivers and esteros). As such, said program is an essential component of the government's disaster risk reduction and management program. The plan is to provide in-city multi-storey housing structures to informal settler families on government-owned land in Rizal, Paranaque, Malabon, Caloocan, Pasig, Valenzuela and Las Pinas. Also, PhP 4.9 billion will be used for the resettlement of another 33,000 informal settler families affected by infrastructure projects and living in danger zones in Metro Manila and other areas. On the other hand, PhP 5.6 billion will be allocated for the housing program for military and police personnel.

Social security, labor/employment and social welfare services

The allocation for the social security, labor/employment and social welfare services sector is programmed to increase by PhP 8 billion in 2013. About 90% of this amount is accounted for by the Department of Social Welfare and Development (DSWD) whose budget will increase by PhP 7.2 billion in 2013 (**Table 5a**). This makes the DSWD the eighth biggest gainer in the 2013 National Expenditure Program.

Close to 70% of the increase in DSWD's budget in 2013 is due to the Pantawid Pamilyang Pilipino Program (4Ps). The allocation for the 4Ps is programmed to increase by PhP 5 billion from 39 billion in 2012 to PhP 44 billion in 2013. The increase will allow the expansion of the program's coverage from 3.1 million families in 2012 to 3.8 million families in 2013. While the initial studies on the impact of the 4Ps indicate that the program has been successful in improving school attendance and demand for basic health services among beneficiaries (e.g., Manasan 2011b; Chaudhury et. al. 2013), other studies indicate that the inclusion error in the implementation of the program is not as low as earlier anticipated (Reyes 2012).

The budget for the Self-Employment Assistance – Kaunlaran (SEA-K) Program will increase by PhP 1.7 billion in 2013. This amount will be used to provide livelihood opportunities to 4Ps beneficiaries to prepare them for the eventual graduation from the program.

The 2013 NEP includes an allocation of PhP 1.5 billion for the implementation and monitoring of the department's component of the Payapa at Masaganang Pamayanan (PAMANA) program. The PAMANA, an inter-agency program led by the Office of the Presidential Adviser for the Peace Process (OPAPP), is a framework for peace building, reconstruction and development in conflict affected areas which aims to reduce poverty and vulnerability in those areas by improving governance and empowering communities. The

DSWD component involves livelihood activities in 845 barangays and the construction of 989 Core Shelter Units.

Economic services sectors. The PhP 49.4 billion increase in the allocation for all the economic sectors as a group in 2013 accounts for 26% of the total increment in the national expenditure program net of debt service (**Table 4**). This amount is about double the increase in aggregate budget for all the economic services sectors combined in 2012, indicating increasing importance currently being given for the economic services sectors. Thus, the combined allocation for all the economic services sectors is programmed to rise from PhP 288 million in 2012 to PhP 337 million in 2013.

<u>Agriculture</u>

The allocation for all the agencies belonging to the agriculture sector as a group will increase by PhP 12.7 billion in 2013, lower than the budget increment of PhP 17.7 billion in 2012 (**Table 4**). Thus, the national government's expenditure program for the agriculture sector in 2013 (PhP 75.1 billion) is 20% higher than that in 2012 (PhP 62.4 billion).

Department of Agriculture

More than half of the PhP 12.7 billion increase in the allocation for the entire agriculture sector is attributable to the Department of Agriculture (DA). In more specific terms, the budget of the DA is programmed to increase by PhP 6.8 billion in 2013, making it the ninth largest gainer from 2013 National Expenditure Program (**Table 5b**).

Close to 30%, the increase in DA's budget in 2013 (or PhP 2 billion) is allocated for farm-to-market roads, with the budget for this item rising from PhP 5 billion in 2012 to PhP 7 billion in 2013. On the other hand, PhP 1.6 billion will go to the restoration, rehabilitation and construction of irrigation systems. Thus, the allocation for irrigation will rise from PhP 25.8 billion in 2012 to PhP 27.4 billion in 2013.

At the same time, the National Expenditure Program for 2013 proposes an increase of about PhP 1.2 billion for National Rice Program and PhP 573 million for National Corn Program.

As noted in Manasan (2011), the increased funding for farm-to-market roads is consistent with the findings of empirical studies which have established the importance of market infrastructure, like farm-to-market roads, in improving the profitability of agricultural producers by linking production areas to markets [e.g., Fan et al. 2000 as cited by David et. al. (2012)]. On the hand, the higher budget support given to irrigation is aligned with the findings of earlier studies [e.g., David (2003), World Bank (2007)]. However, these studies also highlight the need for governance reforms (including greater cost recovery and transfer of management systems to farmers) aimed at making the irrigation sector more efficient.

In contrast, the proposed increases in the budgetary allocation for commodity-specific production support programs may need to be revisited. As indicated in Manasan (2012), government expenditures on these programs in the past went to the provision of private goods such as fertilizers, hybrid seeds, postharvest facilities and equipment, farm machineries, livestock and others. David et. al. (2012) argues that expenditures for production support must be limited to those that address market failures like lack of access to formal financial markets by small producers and non-viability of crop insurance. In contrast, subsidies for postharvest facilities and equipment, farm machineries, hybrid seeds, fertilizers, agricultural chemicals and animal distribution which are all private goods are more difficult to justify.

Table 5b. Top Gainers in 2013 National Expenditure Program, Selected Agencies

	Level (in million pesos)			Difference (in million pesos)		growth rate	
	2011	2012 b/	2013 b/	2011-2012	2012-2013	2011-2012	2012-2013
GRAND TOTAL	1,580,017	1,816,000	2,006,000	235,983	190,000	14.9	10.5
Total Economic Services	262,214	288,028	337,389	25,814	49,361	9.8	17.1
Agriculture	44,752	62,437	75,137	17,685	12,700	39.5	20.3
DA	27,356	49,338	56,167	21,982	6,829	80.4	13.8
BFAR	3,362	3,092	4,659	(270)	1,567	na	na
PCIC	114	184	1,184	70	1,000	61.5	544.2
ACPC	31	34	1,034	3	1,000	9.9	2,906.8
Philippine Coconut Authority	553	1,193	1,749	640	556	115.8	46.6
Agrarian Reform	15,596	19,111	21,618	3,515	2,507	22.5	13.1
DAR	11,581	19,111	21,618	7,530	2,507	65.0	13.1
Natural Resources	14,089	18,754	24,354	4,665	5,599	33.1	29.9
DENR	10,742	15,651	18,520	4,910	2,869	45.7	18.3
NAMRIA	929	960	2,988	31	2,029	3.3	211.4
Industry	4,987	5,527	6,235	540	708	10.8	12.8
DTI	2,616	2,455	3,185	(160)	730	(6.1)	29.7
Tourism	2,181	2,245	3,569	64	1,324	2.9	59.0
DOT	1,443	1,552	2,450	109	897	7.6	57.8
Power & Energy	17,482	11,800	11,323	(5,682)	(477)	(32.5)	(4.0)
DOE	1,285	8,861	4,350	7,576	(4,512)	589.5	(50.9)
NEA	15,753	2,569	5,349	(13,184)	2,780	(83.7)	na
Transportation & Communication	155,927	162,454	190,884	6,527	28,430	4.2	17.5
DPWH	122,005	126,986	153,505	4,981	26,520	4.1	20.9

a/ as % of total expenditure net of debt service
b/ allocation for Miscellaneous Personnel Benefits Fund and Pension and Gratuity Fund are distributed to the various agencies in direct proportion to their budgets for personal services
Source of basic data: Budget of Expenditures and Sources of Finance

The proposed DA budget for 2013 includes a new item, the implementation and monitoring of projects under the PAMANA program. The allocation for the PAMANA program under the DA budget amounts to PhP 1.3 billion.

Other agriculture agencies

The increment in the budgets of other agencies belonging to the agriculture sector were also significant in 2013. These include the Bureau of Fisheries and Aquatic Resources (BFAR), the Agricultural Credit Policy Council (ACPC), the Philippine Crop Insurance Corporation, and the Philippine Coconut Authority (**Table 5b**). The increases in the budgets of these agencies in 2013 appear to have a bias in favor of assisting subsistence farmers and fisherfolks. For instance, the increase in allocation for the BFAR is equal to PhP 1.6 billion on account of the implementation of the National Fisheries Program which will prioritize subsistence fisherfolks. In comparison, the increase in the allocation for the Philippine

Coconut Authority is equal to PhP 556 million, mainly on account of the coconut planting/ replanting project and coconut fertilization project which are meant to directly benefit small farmers registered in Registry System for Basic Sectors in Agriculture (RSBSA).

Meanwhile, the allocations for the ACPC and the PCIC are augmented by PhP 1 billion each in 2013. The PhP 1 billion increase in the budget of the ACPC is meant to be transferred to GFIs to be used exclusively for the establishment of a flexible credit facility for the benefit of small farmers registered in the RSBSA. On the other hand, that for the PCIC shall be used exclusively for the crop insurance premium of subsistence farmers and agrarian reform beneficiaries.

Agrarian Reform

The allocation for the Department of Agrarian Reform is programmed to increase by PhP 2.5 billion in 2013. This amount is largely on account of land acquisition and distribution whose budget will increase from PhP 9.4 billion in 2012 to PhP 13 billion in 2013 (**Table 5b**).

Environment and Natural Resources

The allocation for the environment and natural resources sector is programmed to increase by PhP 5.6 billion in 2013. Some PhP 2.8 billion of the increase in the sector's allocation in 2013 is meant for the Department of Environment and Natural Resources (DENR). This will increase the total allocation for the DENR by 18% from PhP 15.7 billion in 2012 to PhP 18.5 billion in 2013 (**Table 5b**). In particular, the allocation for the department's National Greening Program will increase from PhP 2.2 billion in 2012 to PhP 5.0 billion in 2013. With this budget, the DENR targets to plant 150 million seedlings in 300,000 hectares, up from the 128,559 hectares planted in 2011 and the target of 215,000 hectares in 2012, with the long-term goal of increasing forest cover to 30% of the total land area from only 24% in 2003.

On the other hand, the allocation for the National Mapping and Resource Information Authority (NAMRIA) is programmed to increase by PhP 1.5 billion in 2013. This amount is intended for the implementation of the Unified Mapping Project which aims to produce topographic maps for the 18 major river basins that will serve as inputs to hazard mapping for disaster risk reduction and management.

Power and energy

The allocation for all the agencies belonging to power and energy sector combined is programmed to decline by PhP 477 million in 2013 because of decline in the Department of Energy's use of income from the collections of fees and revenues from the exploration, development and exploitation of energy resources in 2012. However, the allocation for the National Electrification Authority (NEA) is programmed to increase by PhP 2.8 billion in 2013(**Table 5b**). This amount will be used to finance the government's Rural Electrification Program.

Transportation and communication

The 2013 National Expenditure Program proposes a PhP 28.4 billion increase in allocation for all the transportation and communication agencies combined over the 2012 level (**Table 4**). Over 90% of this amount (or PhP 26.5 billion) is on account of the Department of Public Works and Highways (DPWH), making the department the third largest gainer among the various government departments in the 2013 National Expenditure Program (**Table 5b**). In particular, the allocation for national arterial and secondary roads will increase by PhP 23 billion while that for flood control projects will increase by PhP 3.5 billion in 2013. The higher allocation for road construction and maintenance supports the department's program to complete the pavement of national arterial and secondary roads and bridges by 2016. On the other hand, the higher allocation for flood control contributes to the government's disaster risk reduction and management.

As indicated in Manasan (2012), "the higher priority given to the infrastructure sectors under Aquino II is consistent with the need to increase funding for basic infrastructure to help ensure more inclusive growth. Economic theory suggests that increased public infrastructure investment exerts a positive influence on economic growth by increasing the productivity of other factors of production (including labor and private capital). This is especially true when the initial stock of infrastructure assets is low. Moreover, public infrastructure investments is said to crowd-in private investments, thereby resulting in a higher private investment rate, precisely because of the higher returns to private investment resulting from higher factor productivity cited above. On the other hand, improved public infrastructure is conjectured to magnify the improvements in health and education outcomes from higher health and education investments by making it easier for individuals to attend schools and seek health care."

Public services sectors. The expenditure program for all public services sectors combined will increase by PhP 13.7 billion in 2013 relative to its 2012 level (**Table 4**).

The agencies under the public services sector that will receive significantly higher allocations in 2013 relative to their 2012 levels are: Department of Interior and Local Government (increment of PhP 2.8 billion, of which PhP 600 million is for the PAMANA program and PhP 250 million for LGU Challenge Fund[11]), Judiciary (increment of PhP 1.8 billion), ARMM (increment of PhP 1.6 billion of which PhP 500 million is due to the ARMM Social Fund for Peace and Development, PhP 500 million is for infrastructure projects), National Statistics Office (increment of PhP 1.4 billion largely for the Census of Agriculture and Fisheries) and Commission on Audit (increment of PhP 931 million). (**Table 5a**)

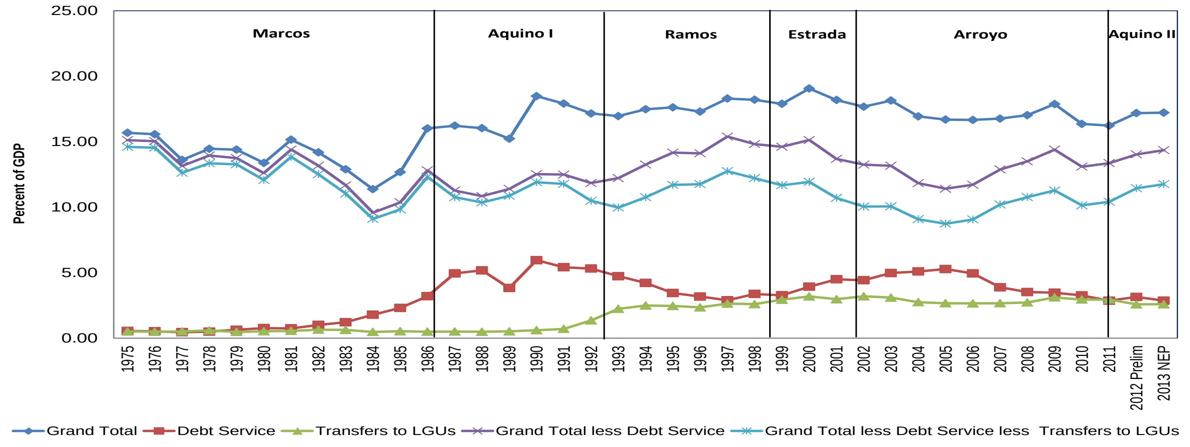
Other sectors, not elsewhere classified. The increase in the allocation for other sectors, not elsewhere classified, is mainly due to the PhP 29 billion increase in the Internal Revenue Allotment (IRA) in 2013.

[11] Said fund is meant to encourage LGUs to adopt good governance. In particular, it will augment resources of 516 LGUs which are able to attain a "Seal of Good Housekeeping" in various areas of governance.

3.2. The 2012 National Expenditure Program in Longer Term Perspective

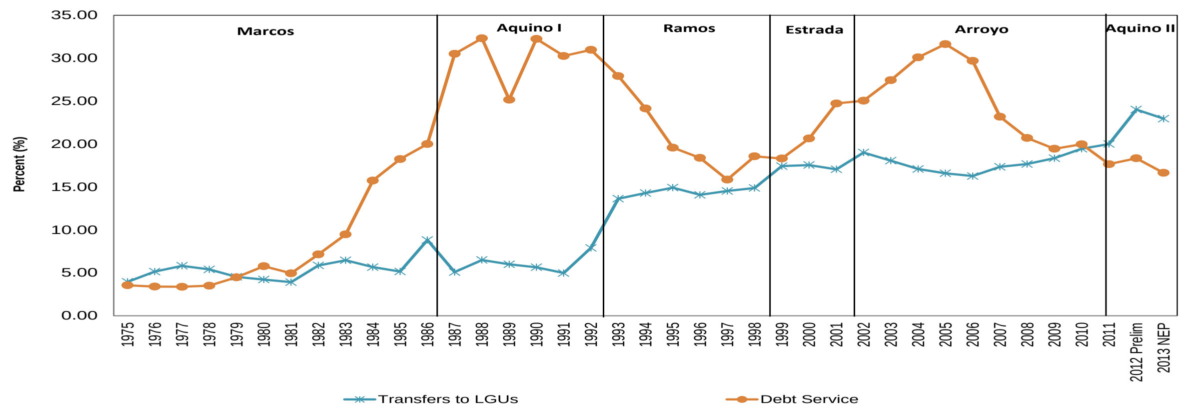
Aggregate national government spending. The aggregate national government expenditure program of PhP 2.0 trillion in 2013 is equal to 17.2% of the projected gross domestic product (GDP) for the year. Total national government spending in 2013 is imperceptibly higher than the 2012 level but lower than average spending during the administrations of Ramos (17.7%) and Estrada (18.5%) [**Figure 3** and **Appendix Table 1**]. This is perhaps to be expected given the fiscal consolidation that is programmed under the government's medium term fiscal framework which aims to reduce fiscal deficit from 2.6% of the GDP in 2012 to only 2.0% of GDP in 2013.

Figure 3. Aggregate National Government Expenditures, as a Percentage of GDP, 1975-2013



National government debt service in 2013 is considerably lower compared to earlier periods primarily because of persistent downward trajectory of national government debt stock in 2004-2012. Furthermore, the continuing appreciation of the peso and decline in interest rates has a positive impact on debt service. In particular, debt service accounts for 16.6% of the national expenditure program in 2013, lower than the 18.3% budget share in 2012 and the average posted during the past four administrations - Aquino I (29.5%), Ramos (20.0%), Estrada (19.6%) and Arroyo (24.5%) [**Figure 4** and **Appendix Table 2**].

Figure 4. Budget Share of Debt Service and Transfers to LGUs (%), 1975-2013



As a result, debt service is projected to be equal to 2.9% of GDP in 2013, lower not only relative to its 2012 level (3.2%) but also relative to the average during the Aquino I administration (5.0%), the Ramos administration (3.5%), the Estrada administration (3.6%) and the Arroyo administration (4.2%) [**Figure 3** and **Appendix Table 1**]. Consequently, the expenditure program (when measured in terms of total national government expenditure net of debt service) appears to be slightly more expansionary in 2013 compared to the situation during the Ramos and Arroyo administrations. To wit, total national government expenditure net of debt service is programmed to be equal to 14.4% of GDP in 2013, higher than the 2012 level (14.0%) and the average registered during the administrations of Ramos (14.2%) and Arroyo (12.9%) but lower than the average during the Estrada administration (14.9%) [**Figure 3** and **Appendix Table 1**].

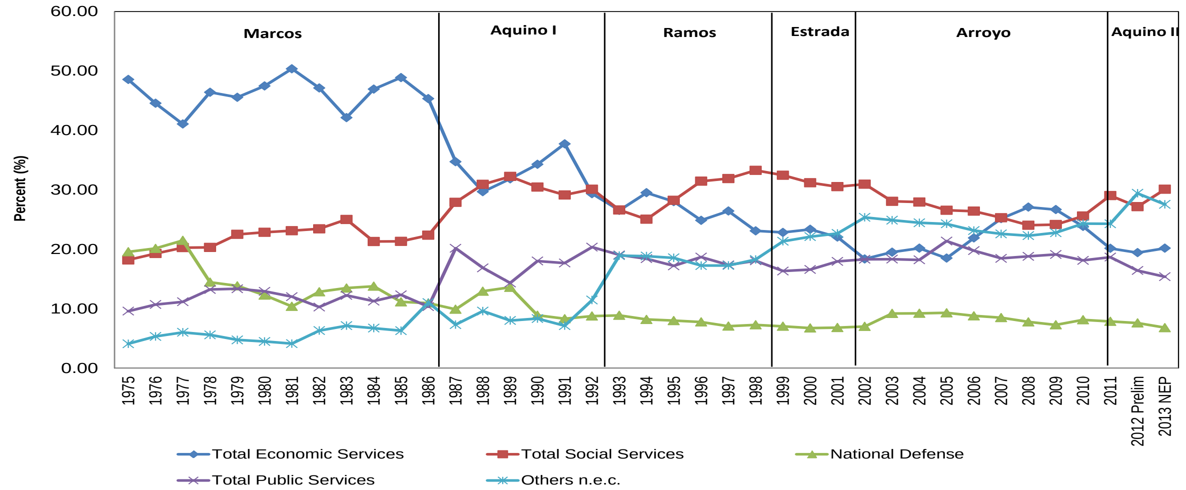
Furthermore, non-mandatory expenditures (i.e., total expenditures less interest payments and transfers to LGUs) is even more expansionary than total expenditures net of debt service because intergovernmental transfers to LGUs remains steady at the 2012 level of 2.6% of GDP in 2013, down from 3.1% in 2009 and 3.0% in 2010 and 2011. Thus, non-mandatory expenditures is programmed to be equal to 11.8% of GDP in 2013, higher than the 2012 level (11.4%) and the average during the administrations of Marcos (11.6%), Aquino I (11.2%), Ramos (11.7%) and Arroyo (10.1%) but just about equal to the average during the Estrada administration [**Figure 3** and **Appendix Table 1**].

Allocation across major expenditure groups. The present government's overarching goal as stated in the Philippine Development Plan is inclusive growth (NEDA 2011). The Plan defines inclusive growth as sustained, rapid growth that is broadly shared, i.e., growth that benefits the majority of the citizenry. Such growth is envisioned to result in reduced poverty and increased employment. The Plan identifies the key strategies that will help achieve inclusive growth: (i) improved infrastructure support, (ii) equal access to human development; and (iii) effective and responsive social safety nets. The 2013 National Expenditure Program supports the abovementioned strategies by supporting interventions that are biased in favor of the poor and vulnerable even while it gives priority to the basic infrastructure necessary for the country to attain rapid, inclusive and sustained economic growth. As such, the very strong bias towards the social services sectors that characterized the 2011 and 2012 expenditure programs has been tempered resulting in a more balanced distribution of the budget between the social services sectors and the economic services sectors. Nonetheless, the social services sectors continue to have the biggest budget share among the major expenditure groups in 2012 as was the case in the past three administrations – Ramos, Estrada and Arroyo.

The share of all the social services sectors combined in total national government expenditure net of debt service in 2013 (30.1%) is not only higher than that in 2012 (27.2%) but is also higher than the average set during the administrations of Marcos (22.0%), Aquino I (29.4%), and Arroyo (26.4%) [**Figure 5** and **Appendix Table 3**]. In contrast, the share of all the economic services sectors as a group in total national government expenditure net of debt service in 2013 (20.2%) is higher than its 2012 level (19.4%) but is lower than the average set during the administrations of Marcos (46.6%), Aquino I (34.3%), Ramos (26.1%), Estrada (23.1%) and Arroyo (23.1%).

As in previous administrations since Ramos, the "others, n.e.c."[12] group ranks third among the major expenditure groups in terms of share in total expenditure net of debt service. To wit, the "others, n.e.c." group will receive 27.5% of the national government budget net of debt service in 2013, lower than its 29.4% share in 2012 but higher than the share of this expenditure group in past administrations (**Figure 5** and **Appendix Table 3**).

Figure 5. Percentage Distribution of National Government Expenditures Net of Debt Service, by Major Expenditure Group, 1975-2013



Starting with the Ramos administration, total public services ranks fourth among the major expenditure groups in terms of share in total expenditures net of debt service. National government spending on all the public services sectors as a group is programmed to account for 15.4% of total government expenditure net of debt service in 2013. This figure is lower than its 2012 level (16.4%) and the average during administrations of Aquino I (17.3%), Ramos (18.0%), Estrada (16.5%) and Arroyo (18.8%) despite the implementation of SSL III (**Figure 5** and **Appendix Table 3**).

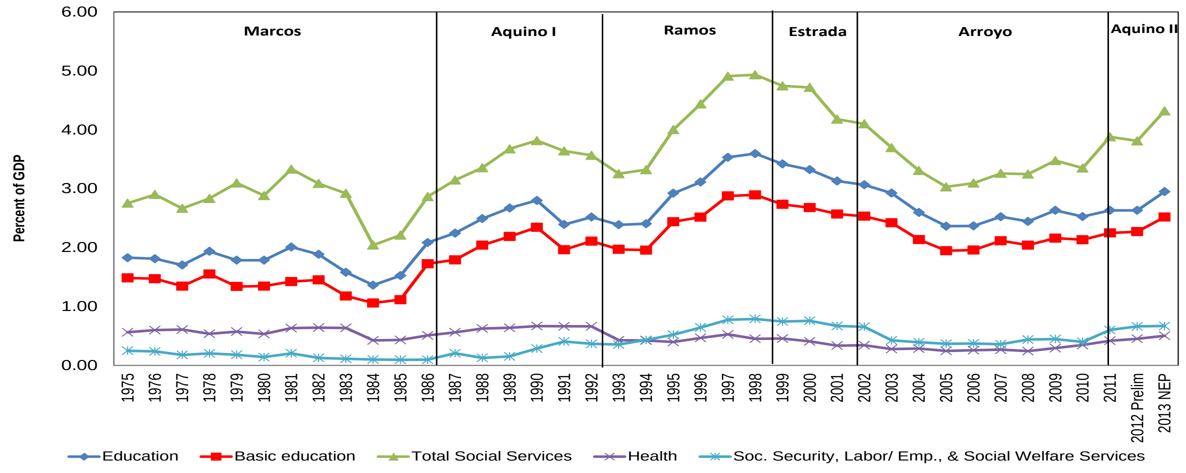
On the other hand, national defense receives the lowest budget share among the major expenditure groups since the Ramos administration and this trend continues up to the present. The share of national defense in total government expenditures net of debt service is programmed to be equal to 6.8% in 2013, lower than its 2012 level (7.6%) and the average during all previous administrations, namely, Marcos (13.8%), Aquino I (10.1%), Ramos (7.7%), Estrada (6.9%) and Arroyo (8.2%) (**Figure 5** and **Appendix Table 3**).

Social services sectors. National government spending on all the social services sectors combined is programmed to increase to 4.3% of GDP in 2013 from 3.8% of GDP in 2012. Because of the sustained high priority accorded to the social services sectors under the

[12] The "others, n.e.c." group includes transfers to LGUs (which accounts for 95%-97% of the group's budget share in the years after the passage of the Local Government Code of 1991), the pork-barrel funds of legislators or Priority Development Assistance Fund (PDAF), unallocated budgetary support to government corporations, and tax expenditures fund. After budget execution, however, the allocation for the last three aforementioned items is distributed to the other expenditure groups/sectors once the actual utilization of the said funds is known. Consequently, the programmed allocation for the "others, n.e.c" group tends to be larger than the actual expenditure obligations after budget execution.

Aquino II administration, national government spending on these sectors in 2013 as a percentage of GDP is markedly higher than the average set during the administrations of Marcos (2.7%), Aquino I (3.5%), and Arroyo (3.4% of GDP). However, national government spending on the social services sectors when expressed as a percentage of GDP in 2013 compares unfavorably with the average registered during the Estrada administration (4.7%) [**Figure 6** and **Appendix Table 1**]. This occurred not only because of the higher budget share of these sectors but also because of the larger expenditure pie during these administrations.

Figure 6. National Government Expenditures on Social Services Sectors, as a Percentage of GDP, 1975-2013



The programmed level of national government spending on the education sector as a whole in 2013 (2.9% of GDP) represents an improvement from the 2012 level (2.6% of GDP) and the average posted during the administrations of Marcos (1.7%), Aquino I (2.5%), and Arroyo(2.6%) (**Figure 6** and **Appendix Table 1**). However, it is lower than the average registered during the administrations of Ramos (3.1%) and Estrada (3.4%).

On the other hand, national government spending on basic education rose from 2.5% of GDP in 2011 to 2.6% of GDP in 2012. In contrast, national government spending on basic education in 2013 (2.9% of GDP) represents an improvement over the 2012 level (2.6%) and the average during all previous administrations, namely Marcos (1.3%), Aquino I (2.1%), Ramos (2.5%), Estrada (2.7%) and Arroyo (2.2%). Consequently, real per capita spending on basic education (in 2000 prices) is projected to rise from PhP 1,490 in 2012 to PhP 1,719 in 2013, markedly higher than the average attained during all previous administrations. In like manner, real per capita spending on the entire education sector is programmed to grow from PhP 1,727 in 2012 to PhP 2,014 in 2013, creditably higher than the average levels registered during all previous administrations (**Figure 7 and Appendix Table 4**). Despite these gains in national government spending on the education sector in 2013, the Philippines continues to suffer in comparison with other Southeast Asian countries like Indonesia, Malaysia, Thailand and Vietnam (**Table 6**).

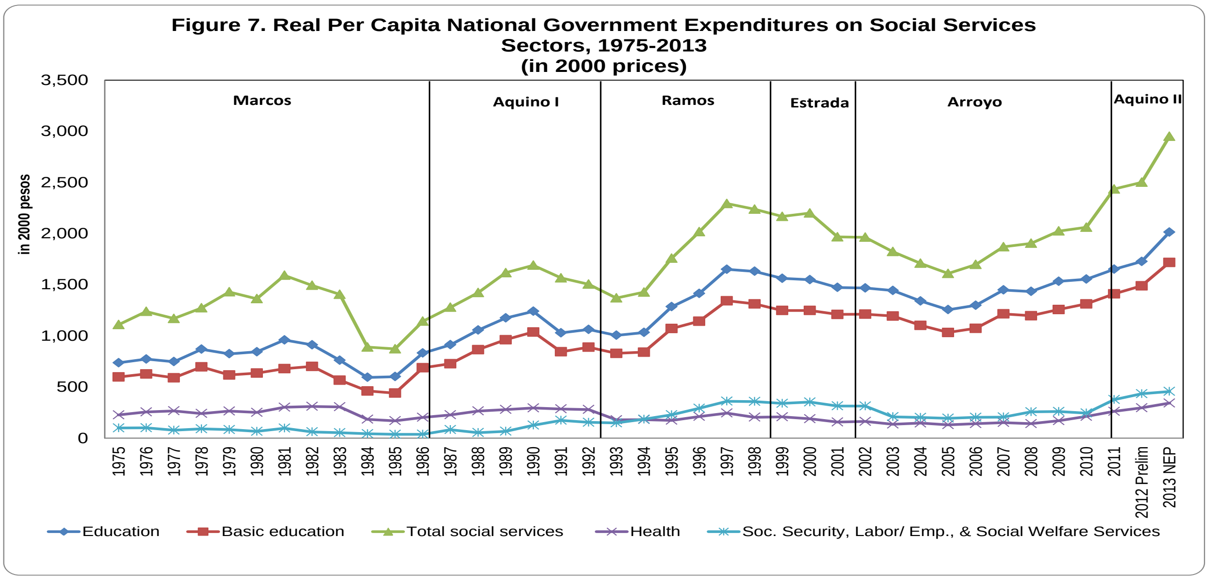


Table 6. Government spending on education sector in selected countries, 2000-2011

	as % of total spending			as % of GDP		
	2000	2006	2011	2000	2006	2010
Philippines	17.4	14.2	16.3	3.3	2.4	2.6
Indonesia	11.5 a/	17.2	17.1 b/	2.5 a/	3.6	3.0 b/
Malaysia	26.7	19.6	20.5 c/	6.0	4.7	6.3 c/
Thailand	31.0	25.0	22.3 b/	5.4	4.3	3.8 b/
Vietnam			19.8 d/			5.3 d/

a/ 2001; b/ 2010; c/ 2009; d/ 2008

Source: UNESCO

Meanwhile, national government spending on health is projected to be equal to 0.45% of GDP in 2012 and 0.50% of GDP in 2013. The latter figure is higher than the average set during the administrations of Ramos (0.45%), Estrada (0.43%) and Arroyo (0.29%) but is lower than the average posted during the administrations of Marcos (0.54%) and Aquino I (0.63%).[13] As a result, real per capita spending on health is projected to increase from PhP 297 in 2012 to PhP 343 in 2013 (**Figure 7 and Appendix Table 4**). It is laudable that the 2013 level is higher than the average levels registered during the administrations of Ramos, Estrada and Arroyo.

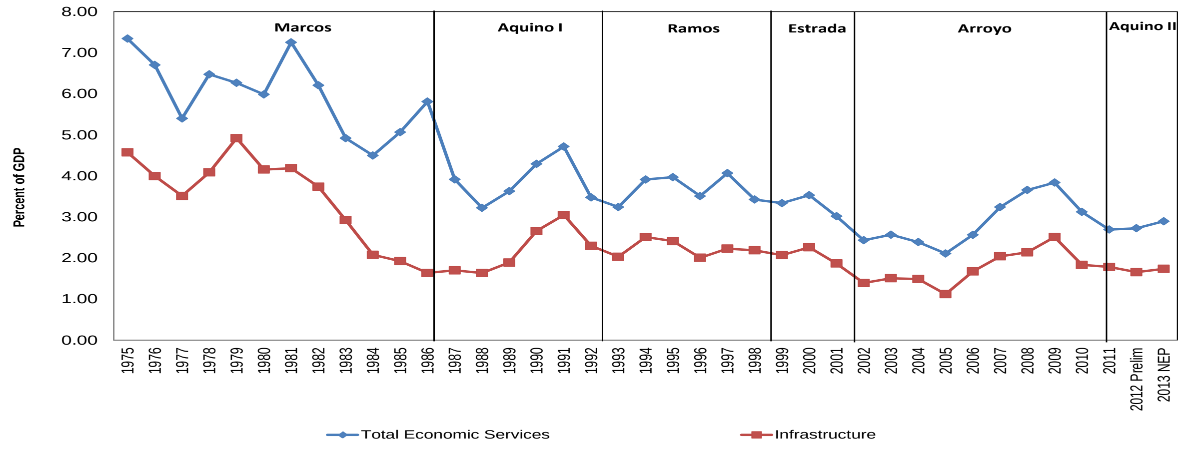
On the other hand, national government spending on social security, labor/employment and social welfare services is projected to rise from 0.66% of GDP in 2012 to 0.67% of GDP in 2013. Perhaps as a result of the greater importance given to social protection during the present administration, the level of national government spending on social security, labor/employment and social welfare services in 2013 is markedly higher than the average during the administrations of Marcos (0.14% of GDP), Aquino I (0.3%), and Arroyo (0.44%) (**Figure 6** and **Appendix Table 1**). At the same time, real per capita spending on social security, labor/employment and social welfare services is projected to rise from PhP 434 in

[13] National government spending on the health services sector declined after the devolution of basic health services following the enactment of the Local Government Code in 1991.

2012 to PhP 457 in 2013, higher than the average levels posted during all previous administrations.

Economic services sectors. National government spending on all the economic services sectors combined is programmed to increase from 2.7% of GDP in 2012 to 2.9% of GDP in 2013, a reversal of the downward trend in 2010-2011 (**Figure 8** and **Appendix Table 1**). Despite the said increase in the national government spending on all the economic services sectors as a group, the 2013 level is still significantly lower than the average levels set during all the previous administrations, namely Marcos (5.7% of GDP), Aquino I (4.1%), Ramos (3.7%), Estrada (3.4%), and Arroyo (3.0%).

Figure 8. National Government Expenditures on All Economic Services Sectors and All Infrastructure Sectors, as a Percentage of GDP, 1975-2013



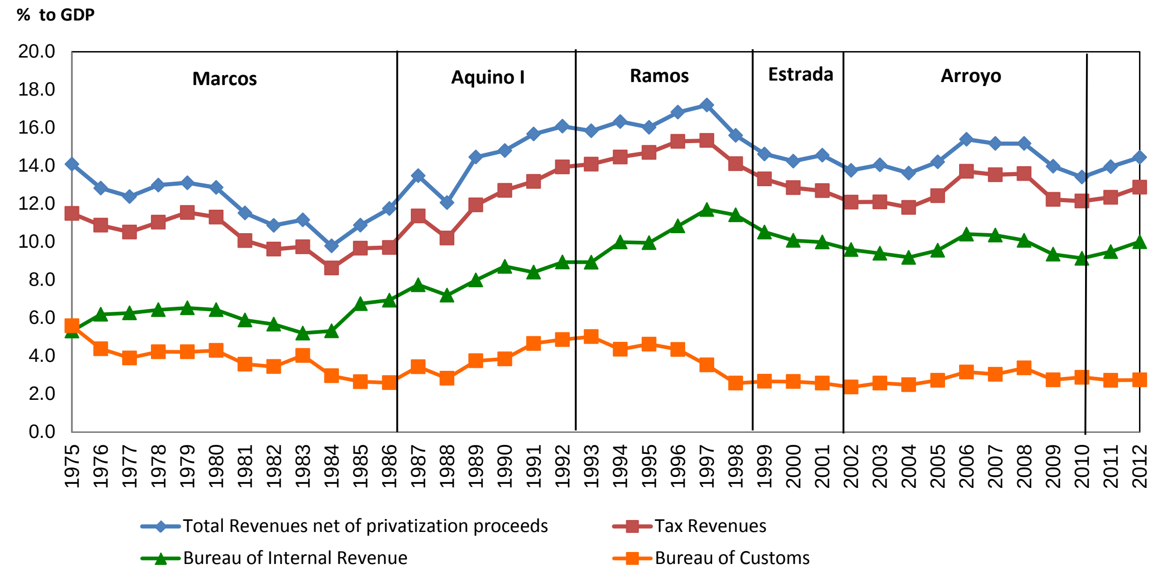
In like manner, national government spending on infrastructure is projected to go up from 1.66% of GDP in 2012 to 1.74% of GDP in 2013, substantially lower than the average during all previous administrations, namely Marcos (3.22%), Aquino I (2.24%), Ramos (2.22%), Estrada (2.17%) and Arroyo (1.82%). The level of spending on public infrastructure in 2013 is, thus, just about a third of the 5.0% of GDP benchmark that the World Bank (2005) estimates middle income countries in East Asia need to spend on public infrastructure in order to meet their needs.

4. REVENUE PROGRAM

Total national government revenues net of privatization proceeds reached a peak of 17.2% of GDP in 1997 (**Figure 9**). Subsequently, overall revenue effort of the national government deteriorated persistently up to 2004 with total national government revenues net of privatization proceeds dropping to 13.6% of GDP in that year. This decline largely mirrors the collapse in overall tax effort during the period. A partial recovery was evident in total revenue effort in 2005-2006 with the enactment of Republic Act 9334 (amending the excise tax on so-called sin products) and Republic Act 9337 (Reformed VAT Law) in 2005. However, said recovery was brief and total national government revenues effort deteriorated once again to 13.4% of GDP in 2010 after improving to 15.4% in 2006.

Manasan (2010) notes that this development is not unexpected altogether as the positive revenue impact of the excise tax amendment and the reformed VAT law have built-in sunset provisions. The reformed VAT law temporarily raised the corporate tax rate to 35% but this rate is scheduled to be reduced to 30% in 2009. On the other hand, the mandated adjustment in excise tax rates on sin products were not enough to keep pace with inflation and, thus, excise tax revenues were eroded in real terms. At the same time, revenue eroding measures have been legislated over the years, including Republic Act 9504 which was passed in early 2008 in order to give some (tax) relief to minimum wage earners. Moreover, evidence of further deterioration in tax administration is evident with respect to the collection of the VAT and excise taxes while the inherent difficulties in collecting taxes from non-wage earners have not been addressed (Manasan 2010).

Figure 9. NG Revenue Effort, 1975-2012



Source of basic data: Bureau of Treasury

Assessment of revenue performance under the Aquino II administration. The Aquino II administration posted laudable gains in the overall revenue effort since it assumed office. These gains are most pronounced in the case of the BIR. BOC tax effort actually deteriorated in the first semester of 2011 and only partially recovered lost ground in the first semester of 2012. In the case of non-tax revenue effort, improvements were evident in the first and second semesters of 2011 but stagnated in 2012. Moreover, these gains are not enough to fully reverse the decline in national government revenue effort since 1997.

In particular, BIR collections increased from 8.8% of GDP in the second semester of 2009 to 8.9% of GDP in the second semester of 2010 (**Table 7**). Similarly, BIR collections went up from 9.1% of GDP in the entire year of 2010 to 9.5% of GDP in the entire year of 2011, the first year of the Aquino II administration and to 10.0% of GDP in 2012. Despite these improvements, BIR tax effort in 2012 is still lower than the local peak of 10.4% of GDP in 2006 and 2007.

On the other hand, the performance of the BOC remains lethargic to date under the Aquino II administration. BOC tax effort declined from 2.9% of GDP in 2010 to 2.7% of GDP in 2011 and 2012. Although BOC effort posted a small recovery the first semester of 2012, this improvement was not sustained in the second semester.

Table 7. Recent revenue performance, by Semester, 2007-2011

	Tax-to-GDP ratio					Growth rate					GDP
	Total Rev	Total Tax	BIR	BOC	Non-tax	Total Rev	Total Tax	BIR	BOC	Non-tax	g.r.
2007	**16.5**	**13.5**	**10.4**	**3.0**	**3.0**						
S1	15.7	13.3	10.3	2.8	2.4						
S2	17.2	13.8	10.4	3.2	3.5						
2008	**15.6**	**13.6**	**10.1**	**3.4**	**2.0**	**5.8**	**12.5**	**9.1**	**24.3**	**-24.5**	**12.0**
S1	15.7	14.1	10.7	3.2	1.6	11.7	18.5	16.4	27.0	-26.0	11.5
S2	15.5	13.1	9.5	3.5	2.3	1.1	7.2	2.6	22.1	-23.6	12.4
2009	**14.0**	**12.2**	**9.3**	**2.7**	**1.8**	**-6.6**	**-6.4**	**-3.6**	**-15.3**	**-8.0**	**4.0**
S1	14.4	12.9	9.9	2.8	1.6	-4.3	-5.1	-3.6	-10.4	3.0	4.1
S2	13.6	11.7	8.8	2.7	1.9	-8.8	-7.7	-3.6	-19.4	-14.5	3.9
2010	**13.4**	**12.1**	**9.1**	**2.9**	**1.3**	**7.5**	**11.4**	**9.6**	**17.7**	**-19.6**	**12.2**
S1	13.8	12.6	9.4	3.0	1.2	8.4	11.1	7.4	24.7	-13.5	13.7
S2	13.1	11.8	8.9	2.7	1.3	6.7	11.7	11.9	11.3	-24.0	10.8
2011	**14.0**	**12.3**	**9.5**	**2.7**	**1.6**	**12.6**	**9.9**	**12.3**	**2.3**	**38.7**	**8.1**
S1	14.6	12.7	9.8	2.7	1.9	15.2	9.8	13.5	-1.7	72.2	8.9
S2	13.4	12.0	9.2	2.7	1.4	10.1	10.0	11.2	6.2	11.2	7.4
2012	**14.5**	**12.9**	**10.0**	**2.7**	**1.6**	**12.9**	**13.2**	**14.5**	**9.3**	**10.3**	**8.6**
S1	15.1	13.3	10.3	2.8	1.8	11.6	13.2	13.8	11.6	0.9	7.9
S2	14.0	12.5	9.7	2.7	1.5	14.2	13.2	15.1	7.2	22.2	9.2

Amendment of sin tax law.[14] Cognizant of the need to arrest the decline in the excise tax effort and the perceived health benefits that are likely to arise from increasing excise tax on tobacco products and alcoholic beverages, the amendment of the existing excise tax law on tobacco and alcoholic products is the only revenue measure that the Aquino administration has certified as urgent to date. In principle, the excise tax on sin products is imposed for the purpose of (i) raising revenues and (ii) discouraging the consumption of the tobacco products and alcoholic beverages. It is argued that higher excise taxes on tobacco will "induce some smokers to quit, reduce consumption of continuing smokers, and prevent others from starting" (Sunley 2009). Because the demand for cigarettes is relatively price inelastic, the expectation is that higher taxes will yield higher revenues in the near term while deterring smoking in the longer term.

Context and rationale

At present, the excise tax on tobacco and alcoholic products follows a multi-tiered schedule that is based on the net retail price (exclusive of VAT and the excise tax itself) of each brand, with cheaper brands being taxed less than the more expensive brands. For instance, the excise tax schedule for cigarettes consists of four tiers referring to low-, medium-, high-, and premium-priced brands while those for fermented liquors and distilled spirits produced from raw materials other than nipa, coconut, cassava, camote, buri palm or sugar cane consist of three tiers each (**Table 8**).

[14] This sub-section is drawn from Manasan and Parel (2013).

Table 8. Existing excise tax rates on tobacco and alcoholic products (RA 9334)

	Date of effectivity			
	1/1/2005	1/1/2007	1/1/2009	1/1/2011
Tobacco				
i) Tobacco twisted by hand or reduced into a condition to be consumed	P1/kilo	P1.06/kilo	P1.12/kilo	P1.19/kilo
ii) Tobacco prepared/ partially prepared with/ without the use of any machine/instruments	P1/kilo	P1.06/kilo	P1.12/kilo	P1.19/kilo
iii) Fine-cut shorts, refuse, scraps, etc. of tobacco (provided these are to be exported or used in the manufacture of other tobacco products	P1/kilo	P1.06/kilo	P1.12/kilo	P1.19/kilo
(iv) Tobacco specially prepared for chewing so as to be unsuitable for use in any other manner	P0.79/kilo	P0.84/kilo	P0.89/kilo	P0.94/kilo
Cigars and cigarettes				
i) Cigars				
NRP of P500 or less per cigar	10 % of NRP	10 % of NRP	10 % of NRP	10 % of NRP
NRP in excess of P500	P50 +15% of NRP	P50 +15% of NRP	P50 +15% of NRP	P50 +15% of NRP
ii) Cigarettes packed by hand (each pack with 30 pieces)	P2.00/ pack	P2.23/ pack	P2.47/ pack	P2.72/ pack
iii) Cigarettes packed by machine (each pack with 20 pieces)				
NRP is below P5 per pack (low-priced)	P2.00/ pack	P2.23/ pack	P2.47/ pack	P2.72/ pack
NRP is P5 to P6.50 per pack (medium-priced)	P6.35/ pack	P6.74/ pack	P7.14/ pack	P7.56/ pack
NRP is P6.50 to P10 per pack (high-priced)	P10.35/ pack	P10.88/ pack	P11.43/ pack	P12.00/ pack
NRP is above P10 per pack (premium-priced)	P25.00/ pack	P26.06/ pack	P27.16/ pack	P28.30/ pack
Distilled Spirits				
i) Produced from sap of nipa, coconut, cassava, camote, buri palm or sugarcane ii) Produced in a pot still by small distillers (up to 100 liters/day and 50% alcohol by volume)	11.65/ proof liter	12.58/ proof liter	13.59/ proof liter	14.68/ proof liter
iii) Produced from raw materials other than above				
NRP per bottle of 750 ml. volume capacity is less than P250.00	126.00/ proof liter	136.08/ proof liter	146.97/ proof liter	158.73/ proof liter
NRP per bottle of 750 ml. volume capacity is P250.00 up to 675.00	252.00/ proof liter	272.16/ proof liter	293.33/ proof liter	317.44/ proof liter
NRP per bottle of 750 ml. volume capacity is P250.00 up to 675.00	504.00/ proof liter	544.32/ proof liter	587.87/ proof liter	634.9/ proof liter
Wines				
i) Sparkling wines/ champagne, regardless of proof				
NRP per bottle is P500 or less	145.6	157.25	169.83	183.42
NRP per bottle is more than P500	436.8	471.74	509.48	550.24
ii) Still wines containing 14% or less alcohol	17.47	18.87	20.38	22.01
iii) Still wines containing over 14% but not over 25% alcohol	34.94	37.74	40.76	44.02
iv) Fortified wines containing more than 25% of alcohol by volume	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits	Taxed as distilled spirits
Fermented liquors (e.g., beer, lager beer, ale, and other fermented liquors)				
i) NRP per liter is less than P14.50	8.27	8.93	9.64	10.41
ii) NRP per liter is P14.50 up to P22.00	12.3	13.28	14.34	15.49
iii) NRP per liter is more than P22.00	16.33	17.64	19.05	20.57

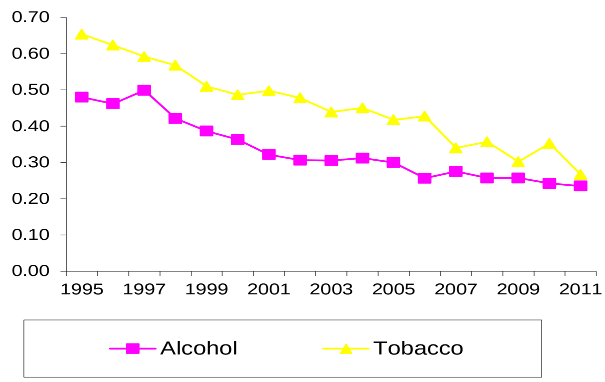
* NRP is net retail prices net of VAT and excise tax

The multi-tiered excise tax rate schedule based on the net retail price was first introduced in 1996 with the enactment of Republic Act 8240 and was later amended by RA 9334 which took effect in 2005. The adoption of specific tax rates for excise taxes in lieu of ad valorem rates under RA 8240[15] meant that the specific rates were fixed until amended by Congress thereby reducing the buoyancy of the excise tax system because the specific tax rates are not automatically indexed to inflation. While RA 9334 provided for discrete increases in the tax rate on tobacco and alcoholic products in 2005 and every other year thereafter until 2011, the mandated increases in the excise tax rates between 2005 and 2011 are less than the actual rate of increase in the prices of tobacco and alcoholic products for the most part.

At the same time, RA 9334 pegged the classification of the various brands of excisable products for purposes of ascertaining the tax rate that will apply on them on the average net retail price prevailing in October 1, 1996. If the reclassification of brands in accordance with the net retail prices prevailing in 2005 when RA 9334 became effective were allowed, the inadequate adjustment of the specific tax rates relative to inflation would have been mitigated due to bracket creep. For instance, had RA 9334 allowed a reclassification of the various brands of excisable products in line with the market prices prevailing in 2005, most of the cigarette brands that were in existence in 1996 would have been subjected to the tax rate that is applicable to either the next higher tier or the one above the next higher tier in the original schedule found in RA 8240.[16]

As it is, the inadequate adjustment of specific tax rates to inflation and the reclassification freeze combined resulted in the erosion of excise tax revenues in real terms. Thus, revenues from the excise tax on tobacco products declined persistently from 0.59% of GDP in 1997 to 0.27% of GDP in 2011. On the other hand, revenues from the excise tax on alcoholic products dipped from 0.50% of GDP in 1997 to 0.23% of GDP in 2011 (**Figure 10**).

Figure 10. Excise tax revenues as % of GDP



[15] This move was meant to address tax evasion arising from the transfer pricing between the manufacturers of tobacco and alcoholic products and their related marketing arms.

[16] This conclusion is based on 2004 retail prices of various brands of cigarettes as cited in dela Cruz (2004) and 2009 retail prices of various brands of cigarettes as cited in Latuja *et al*. (2010).

By providing manufacturers of excisable product the opportunity to mis-declare higher-priced (and therefore, higher-taxed) brands as lower-priced (and therefore, lower-taxed) brands so as to evade paying the correct taxes, the multi-tier rate structure of the excise tax system may have also contributed to the deterioration of the excise tax effort in 1997 to 2011. For instance, Manasan (2010) noted that a shift towards the production of brands subjected to a lower tax rate and a decline in the volume of production of tobacco products, as measured by the total volume of cigarette removals from the plants reported by cigarette manufacturers to the BIR in 2005 to 2009 are not consistent with the positive growth in personal consumption of tobacco products in real terms as per the National Income Accounts during the same period. Also, the data on volume of removals indicate that cigarette producers reported higher than normal volume of removals in 2004, 2006 and 2008, apparently in anticipation of the mandated increase in specific tax rates in 2005, 2007 and 2009.

The current system also distinguishes between the old and new brands. Brands that existed before 1996 are taxed based on their 1996 price while newer brands, including imports, are taxed based on their current prices which tend to be higher. The differential tax treatment of old and new brands results in an uneven playing field for the producers of excisable products with new brands or variants and imported brands being taxed more than locally manufactured older brands. Related to this, the taxation of distilled spirits has been ruled by the WTO to have broken the rules of free trade. The WTO holds that the current excise tax structure of the country discriminates against imported spirits in violation of the General Agreement on Tariffs and Trade (GATT).

Tobacco and alcohol excise tax rates in the Philippines are among the lowest not just in Asia but worldwide (Sunley 2009, Nakayama et. al. 2011). Thus, it is perhaps not a coincidence that the Philippines is currently the highest consumer of tobacco in Southeast Asia, where there are 17.3 million cigarette consumers as estimated by the Department of Health.

Health advocates also argue that the social costs of cigarette smoking and alcohol consumption in terms of their harmful effects on health are the same regardless of the net retail price of any one brand of the excisable product. From this perspective, a uniform rate makes more sense than the existing multi-tier rate structure. To wit, a uniform rate structure is preferable to a multi-tier rate structure because it eliminates the opportunity for consumers to switch from higher-priced, higher-taxed brands to cheaper, lower-taxed (but just as harmful) brands.

Key provisions of Republic Act 10351

In December 2012, President Benigno C. Aquino signed Republic Act 10351 (An Act Restructuring the Excise Tax on Alcohol and Tobacco Products) into law. It imposes a two-tier excise tax system on cigarettes and fermented liquor in 2013 to 2016 before shifting to a uniform rate of PhP 30 per pack of cigarettes and PhP 23.50 per liter of fermented liquor in 2017 (**Table 10**). On the other hand, it levies a hybrid tax of PhP 20 pesos per proof liter of distilled spirits plus 15% of its net retail price. It also provided for a 4% increase in the specific rates yearly starting 2018. Moreover, the law calls for the removal of the price classification freeze.

Table 10. Excise tax rates on tobacco and alcoholic products (RA 10351)

	2013	2014	2015	2016	2017
Cigarettes					
NRP is below PhP 11.50 per pack	12	17	21	25	30
NRP is PhP 11.50 or more per pack	25	27	28	29	30
Fermented liquor					
NRP is below PhP 50.60 per liter	15	17	19	21	23.5
NRP is PhP 50.60 or more per liter	20	21	22	23	23.5

The additional revenue take from RA 10351 is estimated to be PhP 34 billion in 2013, PhP 43 billion in 2014, PhP 51 billion in 2015, PhP 57 billion in 2016 and PhP 64 billion in 2017. Eighty percent of the remaining balance of the said incremental revenues after deducting the 15% of incremental collections from the excise tax on tobacco products that will go to provinces where Virginia tobacco is produced (as mandated under RA 7171) and the 15% of the additional revenues collected from the excise tax on tobacco products that will be allocated among barley and native tobacco producing provinces (as mandated under RA 8240) shall be allocated for the universal health care under the National Health Insurance Program, the attainment of the Millennium Development Goals and health awareness campaigns. On the other hand, the remaining 20% of the remaining balance shall be allocated based on political and district subdivisions for medical assistance and the health facilities enhancement program.

RA 10351 appears to have successfully put together the desirable provisions of the House and Senate versions of the sin tax bill. The law has greatly simplified the tax structure by adopting a unitary excise tax rate for cigarettes, fermented liquor and distilled spirits. Such a shift away from the existing multi-tiered tax structure will tend to result in greater ease in tax administration by minimizing the opportunities for mis-classification or mis-declaration of goods and transactions. Furthermore, such a move will tend to minimize the downshifting to cheaper brands thus tending to reduce consumption of tobacco products and alcoholic beverages better.

Although RA 10351 does not allow for the automatic indexation of the excise tax rates to inflation, it does allow for a 4% increase in the excise tax rates yearly from 2018 onwards. This change is will not only yield additional revenues in the near term but will also prevent the erosion of excise tax revenues in real terms over the long term. Furthermore, a yearly adjustment in the excise tax rate is preferable over an adjustment that occurs every other year as proposed under the House version because the latter tends to give manufacturers the opportunity to avoid taxes by reporting higher than normal volume of removals in the year prior to the mandated increase in specific rates.

Also, by doing away with the freeze on price classification of excisable products, RA 10351 eliminates the preferential tax treatment given to existing brands over new entrants and imports. Such a move tends to level the playing field among the various industry players and enables the country to comply with WTO requirements. On the other hand, the provision of with regards to local content of tobacco products in the Senate version is muted somewhat in the bicameral version which states that "Of the total volume of cigarettes sold in the country, any manufacturer and/or seller of tobacco products must source at least 15% of its tobacco leaf raw materials supply locally, subject to adjustment based on international treaty commitments."

While RA 10351 removed the very detailed earmarking provisions found in the Senate version of the sin tax bill, earmarking of the incremental revenues resulting from the proposed amendment to the excise tax law continues to be one of its major features. The arguments against earmarking in the public finance literature are well known. To wit, earmarking is said to lead "to inefficient budgeting, essentially because it creates rigidities in the expenditure allocation process and prevents authorities from smoothly reallocating funds when spending priorities change." Also, when earmarked funds are off-budget, some loss in budgetary accountability may result because "off-budget often means out of sight and out of mind" (Bird and Jun 2005). However, earmarking may be justified if there is a close link between the payment of earmarked taxes and the benefits accruing to the taxpayer from the favored expenditures as this is consistent with the benefit principle of taxation. But the IMF (2011) points out that "it is difficult to isolate health expenditure on smoking related diseases and finance them by tobacco duties" or taxes (Nakayama et. al. 2011).

5. FINANCING PROGRAM

Given the emerging fiscal picture for 2011, the debt sustainability analysis that was undertaken in **Section 2** indicates that the fiscal deficit targets embodied in the 2012 President's Budget will result in a consistent reduction of the outstanding debt stock of the national government. Thus, the national government debt stock is projected to decline persistently from 54.8% of GDP in 2009 to 52.4% in 2010, 50.9% in 2011 and 51.4% in 2012 (**Figure 2**).

Given the uncertainties in the international financial market, the financing of the national government aims to (i) shift the national government borrowing mix toward a 25:75 ratio in favor of domestic borrowing, and (ii) extend the maturities of existing debt. These changes are evident in the programmed borrowing mix in 2011-2012. Specifically, net domestic borrowing rose from 55.4% in 2011 to 87.0% in 2012 (**Figure 11**). Consequently, the share of domestic debt to total national government outstanding debt inclusive of contingent liabilities expanded from 53.5% in 2010 to 54.9% in 2011 and 60.8% in 2012 (**Figure 12**). At the same time, the country's debt profile improved as the share of debt with long-term maturities in the total debt stock of the national government increased from 73.6% in 2010 to 86.2% in 2012 while the share of short term debt to total national government debt decreased from 11.2% to 5.1% (**Figure 13**).

The trends described above are expected to persist as the profile of national government borrowing in 2013 continues to be biased in favor of domestic borrowings. To wit, the share of domestic borrowing in total national government borrowing is programmed to be equal to 54.5% in 2013.

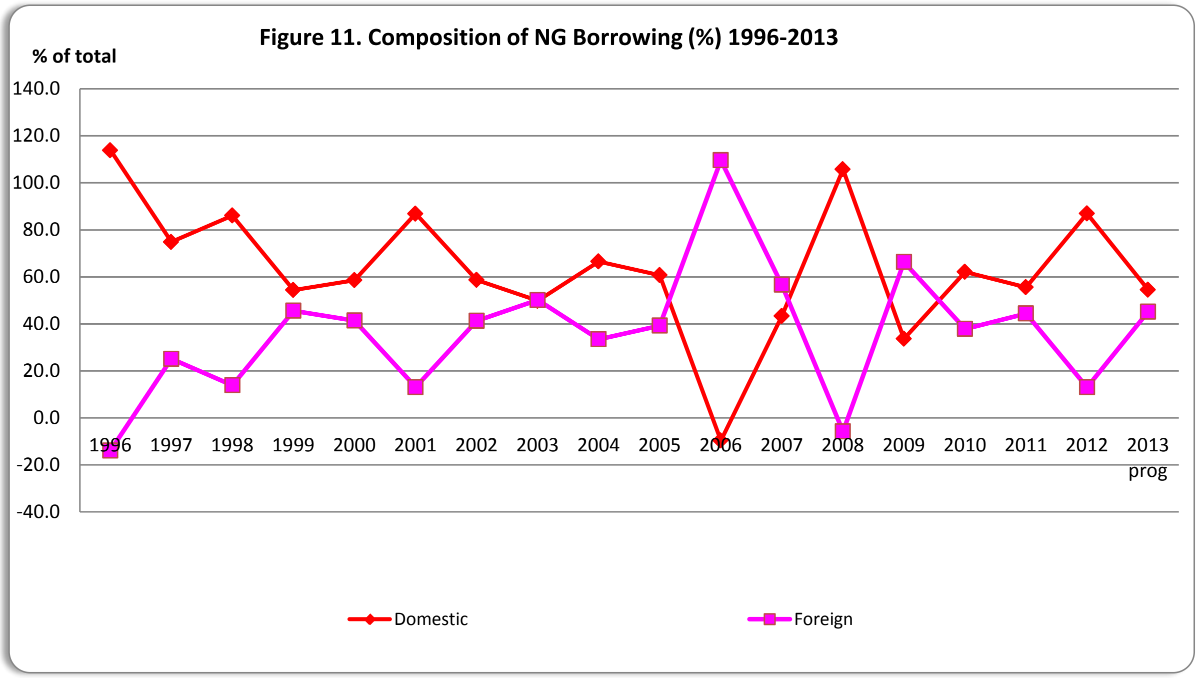


Figure 11. Composition of NG Borrowing (%) 1996-2013
% of total
140.0
120.0
100.0
80.0
60.0
40.0
20.0
0.0
-20.0
-40.0
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 prog
Domestic
Foreign

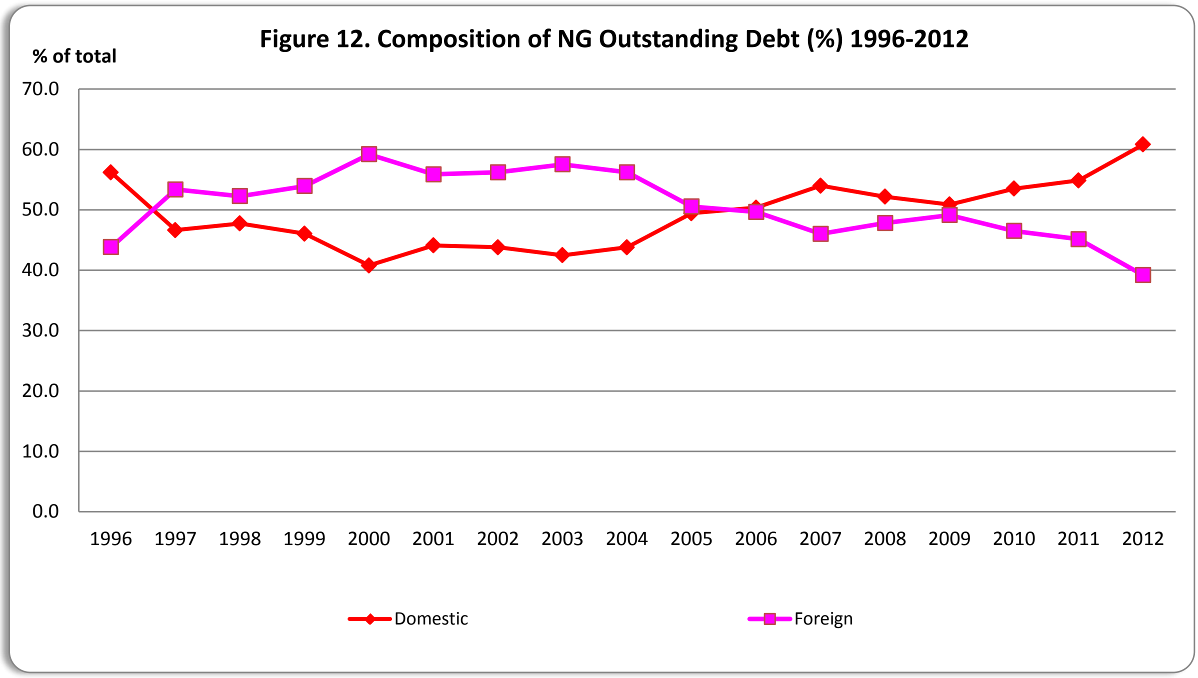
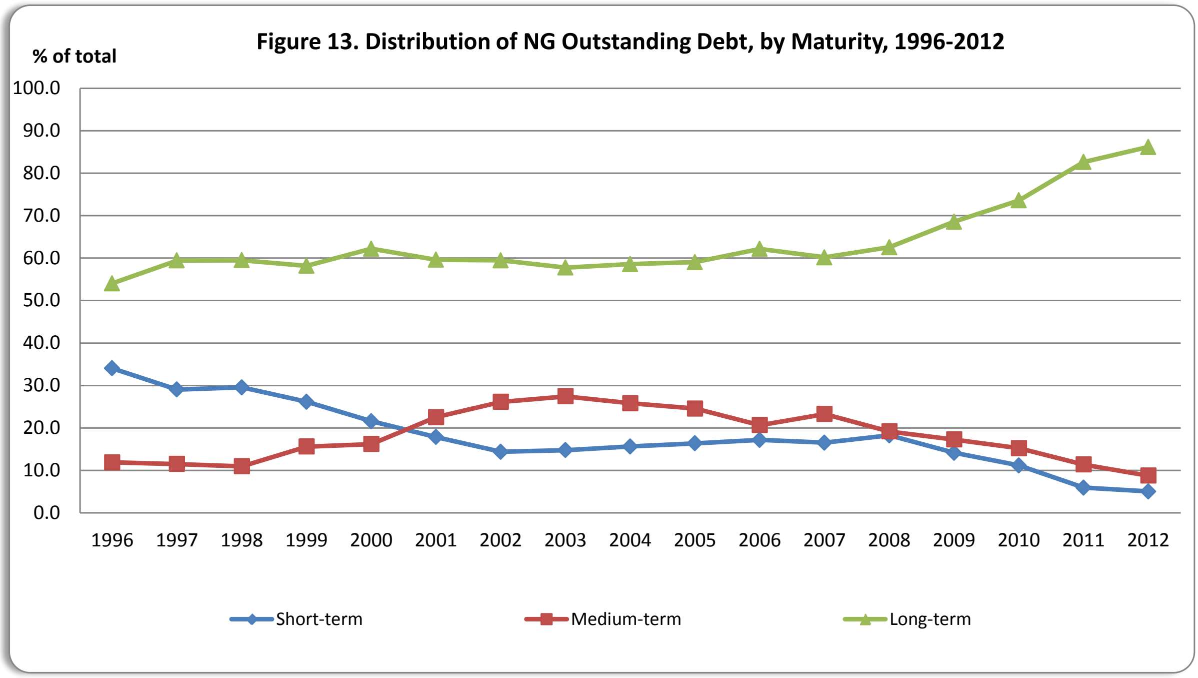


Figure 12. Composition of NG Outstanding Debt (%) 1996-2012
% of total
70.0
60.0
50.0
40.0
30.0
20.0
10.0
0.0
1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012
Domestic
Foreign



6. CONCLUSION

This study shows that significant improvements in tax efforts, specifically by the Bureau of Internal Revenue (BIR), as well as markedly lower than programmed government expenditures since 2011, have resulted in improved fiscal performance of the country. Fiscal deficits in 2011 and 2012 are lower than the programmed levels, while outstanding national government debt stocks in both years are lower than both the projected levels and the 2010 level.

It appears that fiscal deficit target for 2013 can be met, or can even be lower than projected. This is due to the expectation that government revenues will be higher than the projections of the BESF. Although this paper projects the BOC collections and non-tax revenues to be equal to the 2011 and 2012 levels, additional government revenues is expected from BIR collections which is targeted to reach 1.26 trillion in 2013, in contrast to the 1.24 trillion target under the President's Budget. This can be met provided the BIR is able to improve its tax efforts in the same manner it did in 2011 and 2012, and taking into account the passage of the amendments to the excise tax law on sin products which is estimated to yield an additional revenue of PhP 34 billion in 2013.

In line with the government's goal of a more inclusive growth, a more balanced distribution of the budget between the social services and economic services sectors have characterized the 2013 National Expenditure Program. Nevertheless, the social services sector still account for more than half of the PhP 190 billion increase in expenditure program for 2013. Of the social services, the education sector has the largest share (34.6%) in the increment in the total expenditure program of the national government. However, the budget for basic education still compares unfavorably with those of its neighbors in Southeast Asia. On the other hand, national defense receives the lowest budget share among the major expenditure groups.

Finally, this paper highlights the improving debt profile of the country. It is expected that in 2013, the trends in national government borrowing in will continue to be biased in favor of domestic borrowings in 2013.

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APPENDIX TABLES

Appendix Table 1. National Government Expenditures, Obligation Basis, as a Percentage of GDP, 1975-2013

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Prelim	2013 NEP
GRAND TOTAL	13.4	16.9	17.7	18.5	17.1	16.9	18.3	18.2	17.9	19.1	18.2	17.7	18.1	16.9	16.7	16.7	16.8	17.0	17.9	16.4	16.2	17.2	17.2
Total Economic Services	5.7	4.1	3.7	3.4	3.0	2.8	4.1	3.4	3.3	3.5	3.0	2.4	2.6	2.4	2.1	2.6	3.2	3.7	3.8	3.1	2.7	2.7	2.9
Agriculture	0.8	0.7	0.7	0.6	0.7	0.6	0.9	0.6	0.7	0.6	0.6	0.4	0.5	0.4	0.5	0.4	0.6	1.0	0.8	0.8	0.5	0.6	0.6
Agrarian Reform	0.1	0.3	0.3	0.3	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Natural Resources	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2	0.2
Industry	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Trade	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Tourism	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Power & Energy	0.7	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.2	0.0	0.2	0.1	0.1
Water Resources Devt.	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transp. & Comm.	2.4	1.9	2.0	2.0	1.8	1.6	2.1	2.1	1.9	2.1	1.7	1.4	1.5	1.4	1.1	1.6	2.0	2.1	2.3	1.8	1.6	1.5	1.6
Other Econ. Services	1.0	0.4	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0
Total Social Services	2.7	3.5	4.3	4.7	3.4	4.0	4.9	4.9	4.7	4.7	4.2	4.1	3.7	3.3	3.0	3.1	3.3	3.2	3.5	3.3	3.9	3.8	4.3
Education	1.7	2.5	3.1	3.4	2.6	2.7	3.5	3.6	3.4	3.3	3.1	3.1	2.9	2.6	2.4	2.4	2.5	2.4	2.6	2.5	2.6	2.6	2.9
o/w: Basic education	1.3	2.1	2.5	2.7	2.2	2.4	2.9	2.9	2.7	2.7	2.6	2.5	2.4	2.1	1.9	2.0	2.1	2.0	2.2	2.1	2.4	2.5	
Tertiary education	0.3	0.4	0.5	0.5	0.3	0.3	0.5	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	
Health	0.5	0.6	0.5	0.4	0.3	0.5	0.5	0.5	0.5	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.2	0.3	0.3	0.4	0.5	0.5
Soc. Security, Labor/ Emp., & Social Welfare Services	0.1	0.3	0.6	0.8	0.4	0.6	0.8	0.8	0.7	0.8	0.7	0.7	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.7	0.7
Housing & Com. Devt.	0.3	0.1	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.2	0.0	0.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.2
National Defense	1.7	1.2	1.1	1.0	1.1	1.0	1.1	1.1	1.0	1.0	0.9	0.9	1.2	1.1	1.1	1.0	1.1	1.0	1.0	1.1	1.1	1.1	1.0
Total Public Services	1.4	2.1	2.6	2.5	2.4	2.3	2.7	2.7	2.4	2.5	2.5	2.4	2.4	2.2	2.4	2.3	2.4	2.5	2.8	2.4	2.5	2.3	2.2
Public Administration	1.1	1.2	1.4	1.2	1.2	1.1	1.4	1.4	1.1	1.2	1.2	1.1	1.1	0.9	1.2	1.1	1.2	1.3	1.4	1.1	1.2	1.0	1.0
Peace and Order	0.4	0.9	1.1	1.3	1.3	1.3	1.2	1.3	1.2	1.3	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.4	1.3	1.3	1.3	1.2
Others n.e.c.	0.7	1.1	2.6	3.2	3.0	3.8	2.7	2.7	3.1	3.3	3.1	3.4	3.3	2.9	2.8	2.7	2.9	3.0	3.3	3.2	3.2	4.1	4.0
Debt Service	1.3	5.0	3.5	3.6	4.2	3.0	2.9	3.4	3.3	3.9	4.5	4.4	5.0	5.1	5.3	4.9	3.9	3.5	3.5	3.3	2.9	3.2	2.9
MEMO ITEM:																							
Transfers to LGUs	0.5	0.7	2.5	3.1	2.9	2.7	2.6	2.6	2.9	3.2	3.0	3.2	3.1	2.8	2.7	2.7	2.7	2.7	3.1	3.0	2.9	2.6	2.6
Grand Total less Debt Service	12.1	11.9	14.2	14.9	12.9	13.9	15.4	14.8	14.6	15.1	13.7	13.2	13.2	11.8	11.4	11.7	12.9	13.5	14.4	13.1	13.4	14.0	14.4
Grand Total less Debt Service less Transfers to LGUs	11.6	11.2	11.7	11.8	10.1	11.2	12.7	12.2	11.7	11.9	10.7	10.0	10.1	9.1	8.7	9.1	10.2	10.8	11.3	10.1	10.4	11.4	11.8
Infrastructure	3.2	2.2	2.2	2.2	1.8	1.7	2.2	2.2	2.1	2.3	1.9	1.4	1.5	1.5	1.1	1.7	2.0	2.1	2.5	1.8	1.8	1.7	1.7

Appendix Table 2. Percentage Distribution of National Government Expenditures, Obligation Basis, by Function or Sectors, 1975-2013

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Prelim	2013 NEP
GRAND TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Total Economic Services	42.3	24.2	20.9	18.6	17.4	16.4	22.2	18.8	18.7	18.5	16.6	13.8	14.2	14.1	12.6	15.4	19.3	21.5	21.5	19.1	16.6	15.9	16.8
Agriculture	6.0	4.2	3.7	3.4	3.8	3.4	5.0	3.2	3.8	3.0	3.1	2.5	3.0	2.3	3.1	2.3	3.7	6.0	4.7	5.1	2.8	3.4	3.7
Agrarian Reform	0.8	1.9	1.6	1.4	1.2	1.0	1.6	1.4	1.2	1.5	1.4	1.3	1.4	1.5	1.3	1.2	1.4	1.1	0.9	1.0	1.0	1.1	1.1
Natural Resources	1.6	1.5	1.4	1.0	0.9	1.1	1.9	1.2	1.1	0.9	1.1	1.1	0.8	0.7	0.8	0.9	0.8	0.7	0.9	1.0	0.9	1.0	1.2
Industry	1.7	0.8	0.9	0.6	0.5	0.3	0.9	0.5	0.5	0.7	0.4	0.6	0.3	0.4	0.4	0.6	0.9	0.8	0.6	0.4	0.3	0.3	0.3
Trade	0.8	0.2	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.0
Tourism	0.3	0.1	0.2	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.2
Power & Energy	5.1	1.8	1.0	0.8	0.3	0.8	0.5	0.4	1.1	0.5	0.7	-0.1	0.0	0.5	0.2	0.3	0.5	0.2	0.9	0.2	1.1	0.6	0.6
Water Resources Devt.	0.9	0.4	0.2	0.1	0.0	0.0	0.2	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Transp. & Comm.	18.0	11.0	11.3	10.8	10.3	9.4	11.4	11.5	10.4	11.2	9.5	7.9	8.3	8.3	6.5	9.8	11.6	12.4	13.0	11.0	9.9	8.9	9.5
Other Econ. Services	7.1	2.1	0.4	0.3	0.1	0.3	0.4	0.2	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.4	0.2	0.2
Total Social Services	20.0	20.7	24.1	25.6	19.9	23.8	26.8	27.1	26.5	24.8	23.0	23.2	20.4	19.5	18.2	18.6	19.4	19.1	19.5	20.5	23.9	22.2	25.1
Education	12.5	14.7	17.4	18.2	15.2	16.2	19.3	19.7	19.1	17.4	17.2	17.3	16.1	15.3	14.2	14.2	15.0	14.3	14.7	15.4	16.2	15.3	17.1
Health	4.0	3.7	2.6	2.3	1.7	2.7	2.9	2.5	2.5	2.1	1.8	1.9	1.5	1.7	1.5	1.6	1.6	1.4	1.6	2.1	2.6	2.6	2.9
Soc. Security, Labor/ Emp., & Social Welfare Services	1.1	1.5	3.5	4.1	2.5	3.8	4.2	4.3	4.2	4.0	3.7	3.7	2.3	2.3	2.2	2.2	2.1	2.6	2.5	2.4	3.7	3.8	3.9
Housing & Com. Devt.	2.4	0.7	0.7	1.0	0.5	1.0	0.4	0.5	0.7	1.2	0.2	0.2	0.4	0.2	0.3	0.6	0.7	0.7	0.6	0.5	1.4	0.4	1.2
National Defense	12.5	7.1	6.2	5.5	6.2	6.1	5.9	5.9	5.7	5.4	5.1	5.3	6.7	6.4	6.4	6.2	6.5	6.2	5.9	6.5	6.5	6.2	5.7
Total Public Services	10.7	12.2	14.4	13.2	14.2	13.8	14.6	14.7	13.3	13.2	13.5	13.7	13.3	12.7	14.6	13.9	14.2	14.9	15.4	14.5	15.4	13.4	12.8
Public Administration	8.0	6.8	8.0	6.3	6.8	6.3	7.8	7.8	6.4	6.3	6.4	6.1	6.0	5.4	7.4	6.5	6.9	7.7	7.7	6.8	7.6	5.7	5.9
Peace and Order	2.7	5.3	6.4	6.9	7.4	7.4	6.8	6.9	7.0	6.9	7.1	7.6	7.3	7.3	7.2	7.4	7.3	7.2	7.7	7.7	7.7	7.7	6.9
Others n.e.c.	5.2	6.3	14.5	17.5	17.8	22.4	14.5	14.9	17.4	17.6	17.1	19.0	18.1	17.1	16.6	16.3	17.3	17.7	18.4	19.5	20.0	24.0	23.0
Debt Service	9.4	29.5	20.0	19.6	24.5	17.5	15.9	18.6	18.3	20.6	24.7	25.0	27.4	30.1	31.6	29.7	23.2	20.7	19.4	20.0	17.7	18.3	16.6
MEMO ITEM:																							
Transfers to LGUs	4.1	4.3	14.0	16.6	16.8	16.0	14.4	14.3	16.4	16.7	16.4	18.1	17.1	16.3	16.0	15.9	15.9	16.0	17.4	18.0	18.2	15.1	15.1
Grand Total - Debt Service	90.6	70.5	80.0	80.4	75.5	82.5	84.1	81.4	81.7	79.4	75.3	75.0	72.6	69.9	68.4	70.3	76.8	79.3	80.6	80.0	82.3	81.7	83.4
Grand Total less Debt Service less Transfers to LGUs	86.5	66.2	66.0	63.8	58.8	66.5	69.7	67.1	65.3	62.6	58.9	56.8	55.5	53.6	52.4	54.4	60.9	63.3	63.1	62.0	64.2	66.6	68.3
Infrastructure	24.0	13.2	12.6	11.7	10.6	10.2	12.2	12.0	11.6	11.9	10.3	7.9	8.3	8.8	6.7	10.0	12.2	12.6	14.1	11.2	11.0	9.6	10.1

Appendix Table 3. Percentage Distribution of National Government Expenditures Net of Debt Service, by Function or Sectors, 1975-2013

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Prelim	2013 NEP
Total Economic Services	46.6	34.3	26.1	23.1	23.1	19.9	26.4	23.1	22.8	23.3	22.0	18.4	19.5	20.2	18.5	21.9	25.2	27.1	26.7	23.9	20.2	19.4	20.2
Agriculture	6.6	6.0	4.6	4.2	5.1	4.1	5.9	3.9	4.7	3.8	4.1	3.3	4.1	3.3	4.6	3.3	4.8	7.6	5.8	6.4	3.4	4.2	4.5
Agrarian Reform	0.9	2.6	2.0	1.7	1.6	1.3	1.9	1.7	1.5	1.9	1.8	1.7	1.9	2.2	2.0	1.7	1.8	1.3	1.1	1.2	1.2	1.3	1.3
Natural Resources	1.8	2.1	1.7	1.2	1.2	1.3	2.2	1.4	1.3	1.2	1.5	1.5	1.1	1.1	1.1	1.2	1.0	0.9	1.2	1.2	1.1	1.3	1.5
Industry	1.8	1.2	1.1	0.7	0.7	0.4	1.1	0.6	0.6	0.8	0.5	0.8	0.4	0.6	0.5	0.9	1.1	1.0	0.7	0.5	0.4	0.4	0.4
Trade	0.9	0.3	0.2	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.1	0.0	0.1	0.0	0.0
Tourism	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.2	0.2
Power & Energy	5.6	2.5	1.2	1.0	0.5	0.9	0.6	0.5	1.3	0.7	0.9	-0.1	0.1	0.6	0.3	0.4	0.7	0.2	1.1	0.2	1.3	0.8	0.7
Water Resources Devt.	1.0	0.6	0.3	0.1	0.0	0.0	0.3	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.1	0.0
Transp. & Comm.	19.8	15.6	14.2	13.5	13.6	11.4	13.6	14.1	12.7	14.2	12.7	10.6	11.4	11.9	9.5	13.9	15.2	15.6	16.2	13.8	12.0	11.0	11.4
Other Econ. Services	7.9	3.0	0.5	0.4	0.2	0.3	0.5	0.3	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.3	0.5	0.3	0.2
Total Social Services	22.0	29.4	30.1	31.8	26.4	28.8	31.9	33.3	32.5	31.2	30.5	30.9	28.1	27.9	26.6	26.4	25.3	24.0	24.1	25.6	29.0	27.2	30.1
Education	13.8	20.9	21.8	22.6	20.2	19.7	22.9	24.2	23.4	22.0	22.9	23.1	22.2	21.9	20.7	20.2	19.6	18.1	18.3	19.3	19.7	18.7	20.5
Health	4.4	5.3	3.2	2.9	2.2	3.3	3.4	3.0	3.1	2.7	2.5	2.6	2.1	2.4	2.2	2.2	2.1	1.8	2.0	2.6	3.1	3.2	3.5
Soc. Security, Labor/ Emp., & Social Welfare Services	1.2	2.2	4.4	5.0	3.4	4.6	5.0	5.3	5.1	5.0	4.9	4.9	3.2	3.3	3.2	3.2	2.8	3.2	3.1	3.0	4.5	4.7	4.7
Housing & Com. Devt.	2.6	1.0	0.8	1.2	0.6	1.2	0.5	0.7	0.9	1.5	0.3	0.3	0.5	0.3	0.5	0.8	0.9	0.9	0.7	0.6	1.7	0.5	1.4
National Defense	13.7	10.1	7.7	6.9	8.2	7.4	7.1	7.3	7.0	6.7	6.8	7.0	9.2	9.2	9.3	8.8	8.5	7.8	7.3	8.1	7.9	7.6	6.8
Total Public Services	11.8	17.3	18.0	16.5	18.8	16.7	17.4	18.1	16.3	16.6	18.0	18.3	18.3	18.2	21.4	19.8	18.5	18.8	19.1	18.1	18.7	16.4	15.4
Public Administration	8.8	9.7	10.0	7.9	9.0	7.7	9.3	9.6	7.8	7.9	8.5	8.2	8.3	7.8	10.9	9.3	8.9	9.7	9.5	8.5	9.3	7.0	7.1
Peace and Order	3.0	7.6	8.0	8.6	9.8	9.0	8.1	8.5	8.5	8.6	9.4	10.1	10.0	10.4	10.5	10.5	9.5	9.1	9.6	9.6	9.4	9.4	8.3
Others n.e.c.	5.7	9.0	18.1	21.8	23.5	27.2	17.3	18.3	21.3	22.1	22.7	25.4	24.9	24.4	24.3	23.1	22.6	22.3	22.8	24.3	24.3	29.4	27.5
MEMO ITEM:																							
Transfers to LGUs	4.5	6.2	17.5	20.6	22.2	19.4	17.2	17.6	20.1	21.1	21.8	24.2	23.6	23.3	23.4	22.7	20.7	20.2	21.6	22.5	22.1	18.4	18.1
Grand Total - Debt Service	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Infrastructure	26.5	18.8	15.7	14.6	14.1	12.4	14.5	14.8	14.2	15.0	13.6	10.5	11.5	12.6	9.8	14.3	15.9	15.8	17.5	14.0	13.3	11.8	12.1

Appendix Table 4. Real Per Capita National Government Expenditures, Obligation Basis, 1975-2013 (in 2000 prices)

	Marcos 1975-85	Aquino I 1986-92	Ramos 1993-98	Estrada 1999-2000	Arroyo 2001-10	Aquino II 2011-12	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 Prelim	2013 NEP
GRAND TOTAL	6,246	7,091	7,845	8,534	9,284	11,076	8,547	8,261	8,177	8,890	8,564	8,467	8,953	8,750	8,868	9,143	9,626	9,993	10,410	10,070	10,186	11,282	11,760
Total Economic Services	2,694	1,753	1,640	1,586	1,578	1,819	1,900	1,554	1,525	1,647	1,421	1,165	1,267	1,234	1,121	1,408	1,860	2,146	2,236	1,922	1,691	1,789	1,978
Agriculture	392	328	224	291	340	372	426	265	314	269	267	212	269	201	276	210	358	602	489	515	289	388	440
Agrarian Reform	61	127	188	116	114	115	135	115	97	134	118	110	123	133	119	108	134	106	92	99	101	119	127
Natural Resources	111	106	108	84	82	117	162	96	86	82	94	93	75	64	69	79	76	73	98	99	91	117	143
Industry	101	65	70	50	50	34	76	44	39	60	30	52	27	34	33	59	83	80	61	40	32	34	37
Trade	39	14	12	1	5	5	10	5	1	1	5	5	5	4	6	9	9	4	5	3	8	4	4
Tourism	20	9	14	16	14	16	17	19	12	20	11	13	13	15	13	15	18	16	16	12	14	14	21
Power & Energy	363	125	87	68	31	84	46	34	88	48	57	(5)	4	40	17	23	49	16	94	17	113	73	66
Water Resources Devt.	61	32	20	8	2	2	20	9	10	7	5	0	1	(0)	0	0	3	0	15	0	1	5	0
Transp. & Comm.	1,217	748	884	924	926	1,045	975	951	849	1,000	817	671	739	730	578	894	1,121	1,238	1,355	1,112	1,005	1,009	1,119
Other Econ. Services	329	200	34	27	13	28	34	17	29	26	17	12	11	13	9	9	9	11	11	26	38	26	21
Total Social Services	1,258	1,461	1,851	2,184	1,863	2,629	2,293	2,239	2,168	2,200	1,968	1,964	1,823	1,709	1,610	1,698	1,871	1,905	2,025	2,062	2,435	2,502	2,950
Education	784	1,044	1,337	1,556	1,425	1,797	1,650	1,631	1,562	1,549	1,474	1,468	1,443	1,341	1,256	1,299	1,448	1,434	1,533	1,554	1,651	1,727	2,014
o/w: Basic education	602	860	1,037	1,212	1,155	1,536	1,265	1,272	1,214	1,210	1,180	1,187	1,158	1,069	1,012	1,044	1,165	1,182	1,245	1,305	1,411	1,484	1,713
Tertiary education	151	158	181	204	175	191	208	208	205	204	186	193	185	177	164	163	161	161	174	183	181	172	219
Health	253	263	200	199	156	301	246	205	208	190	158	164	137	148	131	142	153	142	171	213	262	297	343
Soc. Security, Labor/ Emp., & Social Welfare Services	74	100	263	347	241	423	361	358	340	353	315	314	209	203	195	204	206	257	260	245	377	434	457
Housing & Com. Devt.	147	54	52	83	42	108	36	44	57	108	21	18	34	17	28	53	64	72	61	49	144	44	136
National Defense	870	524	486	473	569	676	508	490	470	476	439	445	597	564	564	566	628	616	611	655	659	700	668
Total Public Services	683	845	1,127	1,131	1,311	1,528	1,249	1,215	1,091	1,170	1,157	1,162	1,191	1,114	1,296	1,271	1,366	1,490	1,604	1,461	1,566	1,512	1,507
Public Administration	504	476	630	541	626	704	667	645	522	560	551	521	538	476	660	599	661	768	800	686	777	643	691
Peace and Order	179	369	497	589	685	824	582	570	569	610	606	642	653	638	635	672	705	722	803	775	789	869	815
Others n.e.c.	317	452	1,130	1,493	1,645	2,482	1,242	1,229	1,426	1,560	1,461	1,609	1,617	1,495	1,471	1,488	1,670	1,766	1,910	1,959	2,037	2,709	2,700
Debt Service	425	2,056	1,610	1,666	2,318	1,942	1,355	1,534	1,498	1,835	2,117	2,121	2,457	2,633	2,806	2,714	2,231	2,069	2,024	2,012	1,799	2,069	1,957
MEMO ITEM:																							
Transfers to LGUs	245	285	1,098	1,416	1,553	1,773	1,235	1,183	1,343	1,489	1,403	1,534	1,530	1,423	1,419	1,457	1,532	1,602	1,815	1,817	1,850	1,698	1,772
Grand Total less Debt Service	5,821	5,035	6,235	6,867	6,966	9,134	7,192	6,727	6,680	7,055	6,446	6,346	6,496	6,117	6,062	6,430	7,395	7,924	8,386	8,058	8,388	9,212	9,802
Grand Total less Debt Service less Transfers to LGUs	5,576	4,750	5,137	5,452	5,413	7,361	5,957	5,544	5,337	5,566	5,044	4,812	4,966	4,694	4,643	4,973	5,863	6,322	6,571	6,241	6,538	7,514	8,030
Infrastructure	1,641	904	990	1,001	959	1,131	1,042	993	947	1,055	880	667	744	770	595	918	1,173	1,255	1,464	1,129	1,119	1,087	1,186

Appendix Table 5. National Government Revenue Effort, as % of GDP, 1992-2012

	1975-85	1986-92	1993-98	1999-2000	2001-10	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
TOTAL REVENUE b/	11.5	14.7	16.8	14.6	14.6	16.2	15.9	17.9	17.1	17.1	17.5	15.7	14.7	14.4	14.6	13.8	14.1	13.8	14.4	15.6	16.5	15.6	14.0	13.4	14.0	14.5
Total tax	10.0	12.2	14.7	13.1	12.7	13.9	14.1	14.5	14.7	15.3	15.3	14.1	13.3	12.8	12.7	12.1	12.1	11.8	12.4	13.7	13.5	13.6	12.2	12.1	12.3	12.9
BIR	6.0	8.2	10.7	10.3	9.7	8.9	8.9	10.0	10.0	10.8	11.7	11.4	10.5	10.1	10.0	9.6	9.4	9.2	9.6	10.4	10.4	10.1	9.3	9.1	9.5	10.0
BOC	3.6	3.9	3.9	2.7	2.8	4.9	5.0	4.4	4.6	4.3	3.5	2.6	2.7	2.7	2.6	2.4	2.6	2.5	2.7	3.2	3.0	3.4	2.7	2.9	2.7	2.7
Non-tax revenue b/	1.5	2.2	1.6	1.4	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6

Source of basic data: BTr