



# 2008 BUDGET BRIEFER

CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

OCTOBER 2007

No. 2007-05

## FINANCING THE SOCIAL PAYBACK AGENDA AND CLOSING THE BUDGET GAP: A BALANCING ACT

*The budget that I propose for 2008 is a balanced budget, the first time in over ten years that our government has been able to do so....In this fiscal plan, raising efficient and permanent sources of tax collections will continue to be the government's lifeblood.*

The President's Budget Message, FY 2008

The proposed 2008 cash budget of P1,236.2 billion is premised on a disbursement ceiling that is equal to target revenue collections (i.e., balanced budget). It will be financed mostly by tax revenues—with some expectations from non-tax sources. Despite a balanced budget, however, the national government intends to borrow at least P346.2 billion to pay off maturing debts during the year.

### REVENUE PROGRAM

**Revenue Targets.** Total revenues for FY 2008 is projected to grow by 10.5%—from P1,118.8 billion, to P1,236.2 billion (*see Table 1*). Of this amount, P845.0 billion or 68.3% would come from tax collections of the Bureau of Internal Revenue (BIR), P254.5 billion or 20.6% from the Bureau of Customs (BOC) and a little less than 1% or P9.5 billion from other tax collecting agencies<sup>1</sup>. In order to attain the tax revenue goal, BIR and BOC must exceed their 2007 collection targets by around 14%.

Non-tax revenues would decline by 12.3%—from P145.2 billion to P127.3 billion but only because the 2007 revenue program has been revised (*see Table 2*). Current year's collection target from non-tax sources was adjusted primarily due to the favorable out turn on the sale of government assets. As of August, proceeds from privatization registered at P42.2 billion against a full-year original target of P25.3 billion or a surplus of P16.9 billion. Assets that have been sold so far include the Philippine Telecommunications Investment Corporation (P25 billion), 20% PNOC-EDC common shares (P15.1 billion), PNB shares (P0.99 billion), and the old Iloilo Airport (P1.2 billion).

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<sup>1</sup> Other tax sources are motor vehicle fees, Fire Code tax, forest charges and travel taxes.

**TABLE I**  
**REVENUE PROGRAM, 2007-2008**  
**(AMOUNTS IN BILLION PESOS)**

PARTICULARS	2008	2007	Growth	
			Amount	%
BIR	844.95	741.27	103.68	13.99
BOC	254.48	223.25	31.23	13.99
Other Taxes	9.46	9.06	0.40	4.40
Total Tax Collections	1,108.89	973.58	135.31	13.90
Non-Tax Revenues	127.34	145.19	(17.85)	(12.29)
Total Revenues	1,236.23	1,118.76	117.46	10.50

Source: BESF 2008

On the other hand, revenue target of the BIR has been reduced by P24.6 billion due to several factors such as the utilization of excess input tax credits, impact of lifting the 70% cap, unrealized economic assumptions on inflation rates and lower than programmed interest rates on Treasury Bills and bank deposits.<sup>2</sup> BOC's collection goal has been downscaled by P5 billion because of the strength of the peso viz-a-viz the US dollar (i.e. earlier projection of P51-53:US\$1 compared with January to July average of P47.5). The Department of Finance estimates a revenue loss of P2.7 billion for every P1 appreciation in foreign exchange.

**TABLE 2**  
**REVENUE TARGETS AND REVENUE EFFORT**  
**(IN BILLION PESOS AND RATIO TO GDP)**

PARTICULARS	2008 Proposed	2007		
		Original <sup>a/</sup>	Revised <sup>c/</sup>	Difference
BIR	844.95	765.86	741.27	(24.59)
BOC	254.48	228.21	223.25	(4.96)
Other Taxes	9.46	9.06	9.06	-
Total Tax Collections	1,108.89	1,003.13	973.58	(29.55)
% of GDP	15.20	14.90	14.70	
Non-Tax Collections	127.34	115.63	145.19	29.56
% of GDP	1.80	1.70	2.20	
of which: Privatization	29.56	25.62	55.19	29.56
Total Revenues	1,236.23	1,118.76	1,118.76	-
% of GDP	16.97	16.67	16.93	
Memo item: GDP, nominal	7,284.70	6,712.7 <sup>b/</sup>	6,609.70	

a/ January to June 2007 Cash Operations Report

b/ Budget of Expenditures and Sources of Financing, 2007

c/ Budget of Expenditures and Sources of Financing, 2008

<sup>2</sup> BIR Presentation to the House Committee on Appropriations on 04 September 2007; limit on the deductibility of the 70% input tax credit has been lifted under RA 9361 dated 21 November 2006.

The revenue base (i.e. represented by nominal gross domestic product) was also adjusted downward despite two quarters of real GDP growth (7.3%) due to lower inflation rate. From a target of P6,712.7 billion, nominal GDP was reduced to P6,609.7 billion. As a result of adjustment in GDP figures, revenue effort appears to have improved—from 16.7% (original) to 16.9% (revised).

Under a revised revenue program, tax effort<sup>3</sup> is seen to improve from 14.7% to 15.2% in 2008. Before the Comprehensive Tax Reform Program (RA 8424) took effect in January 1998, tax-to-GDP almost reached 17%. This raises the issues of whether tax laws enacted by Congress since 1997 are able to capture the growth of the economy and whether there are weaknesses in tax administration that must be addressed. For instance, excise-to-GDP ratio fell sharply from 2.6% in 1997 to 0.96% in 2006. Interestingly, excise tax effort is expected to deteriorate further to 0.86% in 2008 despite rate increases of between 4.1% and 10.3% in 2005 and 2007 (RA 9334).

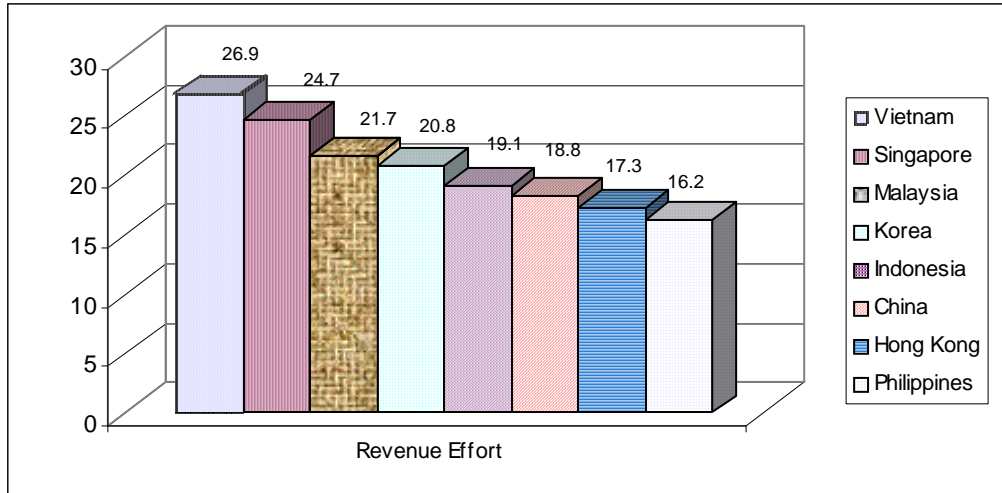
Table 2 also shows that revenue effort would rise minimally from 16.93% to 16.97% due mainly to a lower income from privatization. Proceeds from sale of government assets (revised revenue program) is set at P55.2 billion while next year's goal is only P29.56 billion. Comparatively, a revenue take of less than 17% is way below the collection performance of other Asian countries. Specifically, Vietnam is able to muster around 27% of its GDP to finance government expenditures (*see Figure 1*).

The national government has a history of setting unrealistic revenue targets (*see Figure 2*), with the shortfall almost always coming from tax collections—except in 2005 when actual BOC collections of P154.6 billion exceeded its original (BESF) targets by P20 billion. Compared to the revised agency target of P151.2 billion, however, actual collections were only P3.4 billion better.

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<sup>3</sup> Tax effort measures the compulsory tax collections generated by the government out of economic activities within a given year (i.e., gross domestic product). Revenue effort includes collections from non-recurring income sources like fees and charges, privatization proceeds, dividends from government enterprises, income from investments, etc., in addition to tax collections.

**FIGURE I**  
**REVENUE EFFORT OF SELECTED ASIAN COUNTRIES, 2006**  
**IN PERCENT**



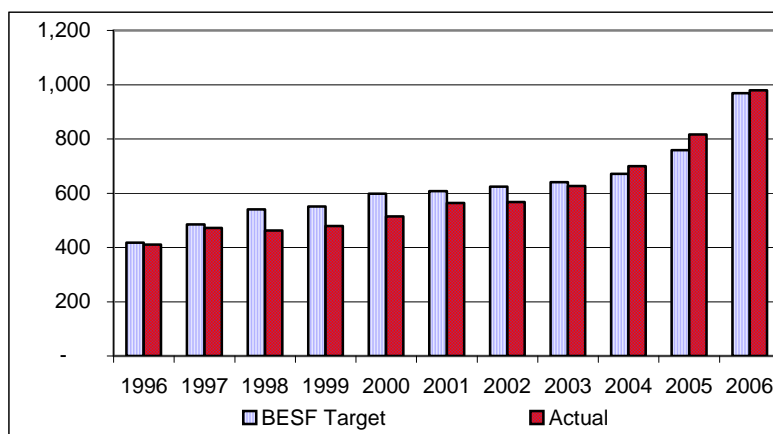
Source: Asian Development Outlook 2006 for Asian countries, actual 2006 for the Philippines (BESF 2008)

Actual collections exceeded revenue goals in 2004 and 2006 due to non-tax revenues, particularly BTr income. As pointed out in previous reports of the Congressional Planning and Budget Department (CPBD), assigned BTr goal is rather low compared to actual collections thus, making it easy for the Treasury office to meet its target.<sup>4</sup> Revenues of the agency come mostly from interest income from Bond Sinking Fund, GOCC dividend remittances, NG share in PAGCOR profits, and guarantee fees.

Painting a very rosy revenue scenario does not make good fiscal policy because it gives the impression that more funds are available for budgetary purposes. And whenever fiscal resources fail, the government is forced to either cut back expenditures or run to the credit market for additional funds. Recent efforts to shore up revenues through the sale of government assets are, at best, short-lived. The more strategic way of mobilizing government revenue is still through increased tax collections.

<sup>4</sup> *Analysis of the President's Budget for FY 2007* (p.23-24); *Analysis of the President's Budget for FY 2006* (p. 26).

**FIGURE 2**  
**REVENUE TARGET AND ACTUAL COLLECTIONS, 1996-2006**  
**(IN BILLION PESOS)**



Source: BESF various issues

**Earmarked Revenues.** Under special laws and specific provisions in the Appropriations Act, some agencies are authorized to earmark certain income for the purpose of meeting expenditure requirements (see Annex A). Earmarked revenues in 2008 are estimated at P28.95 billion from where disbursements amounting to P21.68 billion will be charged. The budget documents submitted by the President to Congress also indicates that as of 31 December 2006, earmarked revenues have an available balance of P24 billion.

In addition to the amounts proposed for the Department of Public Works and Highways (DPWH) in 2008, the agency will receive P7.43 billion more from the Motor Vehicle User Charge (MVUC) collections of the Land Transportation Office's special road support and special road safety funds created under RA 8794.<sup>5</sup> The Higher Education Development Fund under the Commission on Higher Education (CHED) will likewise receive P854 million as its share from the travel tax collections of the Philippine Tourism Authority under RA 7722.<sup>6</sup>

Meanwhile, Section 5 of the Special Provisions for the Department of Health states that fees and charges collected by special hospitals, medical centers, and other national government hospitals shall be retained and constituted as Trust Funds for the use of such hospitals. Thus, unlike the revenue collections of the Land Transportation Office and the Philippine Tourism Authority that will have to be remitted to the national treasury before corresponding amounts can be allocated/transferred to the DPWH and CHED, collections of hospitals are deposited straight to their depository banks.

<sup>5</sup> Sections 8 and 9 of the Special Provisions, Department of Public Works and Highways

<sup>6</sup> Section 1 of the Special Provisions, Commission on Higher Education

The Judicial Development Fund (JDF) is also excluded from the list of earmarked revenues. Presidential Decree No. 1949 that creates the JDF specifically provides that 80% of incomes from sale of publication, sheriff's commission, confiscated bonds and the like shall be used to augment the allowances of members/staff of the Judiciary and the remaining 20% shall be used to finance the acquisition, maintenance and repair of office equipment/facilities. Since all collections accruing to the JDF are directly deposited to the Land Bank of the Philippines and not to the Treasury, it is difficult to properly account the incomes and expenses of the Judiciary.

## REVENUE OUTLOOK AND ITS IMPACT ON NG FISCAL POSITION

**2007 Revenue Projection.** Based on the presentation of the Department of Finance before the House Committee on Appropriations, NG managed to generate only P614.3 billion from January to July viz-a-viz its revenue target of P645.1 billion program for the same period. The shortfall in BIR collection amounting to P37.7 billion may be traced to lower-than-target collections from value added tax (P26.05 billion), income tax (P8.25 billion), percentage tax (P3.56 billion), and excise tax (P1.91 billion).<sup>7</sup>

On the other hand, BOC incurred a shortfall of P12.16 billion for the seven-month period due to the strong peso (i.e. value of imports used in the computation of custom duties are in dollars but remittances to the Treasury are in pesos) and lower-than-expected volume to dutiable imports (i.e. duty-free goods are not subject to customs levy). Collection districts that reported deficiency over target are Port of Manila (P5.25 billion), Port of Batangas (P3.96 billion), and Manila International Container Port (P1.37 billion).

As discussed earlier, the saving grace came from non-tax sources. Privatization proceeds (P41.2 billion) alone exceeded the January to July target by P15.9 billion. Actual BTr income was also P4.3 billion above program (P35.3 billion). Taken all together, combined tax collection deficiency of BIR and BOC of around P50 billion from January to July has been pared down to P30.8 billion as a result of surplus in non-tax revenues by P18.6 billion.<sup>8</sup>

For 2007, CPBD projects that NG revenue take would amount to P1,092.2 billion or a shortfall of P26.56 billion viz-a-viz a P1,118.76 billion revenue target (see Table 3). The estimates were arrived at by using the elasticity of revenue collections to GDP over a period of eleven years (1996-2006). Furthermore, CPBD assumes a real GDP growth of 6.4%—within the DBCC target of 6.1% to 6.7%, given strong indications of growth in the industry

<sup>7</sup> BIR presentation to the House Committee on Appropriations 03-04 September 2007 shows a revenue shortfall of P38.5 billion instead of P37.7 billion as reported by DOF.

<sup>8</sup> Excess in other tax collections from January to July is P400 million.

and services sectors (*for related discussion, see Budget Briefer No. 2007-03*).<sup>9</sup> Assuming that full-year cash disbursements will be kept at P1,181.76 billion, NG deficit for 2007 would amount to P89.56 billion or 42% higher than target deficit of P63.0 billion.

**TABLE 3**  
**2007 REVENUE ESTIMATES**  
**(AMOUNT IN BILLION PESOS)**

PARTICULARS	Revised DBCC Targets		CPBD Projection		Difference
	Amount	% of GDP	Amount	% of GDP	
BIR	741.27	11.21	716.27	10.81	(25.0)
BOC	223.25	3.38	217.59	3.28	(5.7)
Other Tax	9.06	0.14	9.35	0.14	0.3
Non-Tax Revenues	145.19	2.20	148.99	2.25	3.8
TOTAL REVENUES	1,118.76	16.93	1,092.20	16.48	(26.6)
Less: Cash Disbursements	1,181.76	17.88	1,181.76	17.83	-
NG Deficit	(63.00)	(0.95)	(89.56)	(1.35)	(26.6)
Memo item: GDP, nominal	6,609.7		6,628.69		

Source of basic data: BESF, various years

Despite a revenue shortfall of P47.71 (as of June), NG posted a lower budget deficit of P40.98 billion. Table 4 shows that the NG deficit has been tamed because of low cash utilization by government agencies (NGAs) and savings in interest payment. Of the P350.06 billion worth of programmed cash allocations, only P302.71 billion has been disbursed by NGAs or a non-utilization of P47.35 billion. The difference of P23.31 billion in Allocation to LGUs is due to technical error, that is, DBM reflected only a portion (i.e. 80% of Internal Revenue Allotment) instead of the entire Allocation to local government units. Government corporations that received subsidies from January to June include the National Housing Authority (P2.2 billion), Philippine Health Insurance Corporation (P2.05 billion), University of the Philippines-CFED (P1.37 billion) and Land Bank of the Philippines (P1.29 billion).

<sup>9</sup> 2008 Budget Briefer No. 2007-03, "The Macroeconomic Perspective: The Continuing Imperative for Fiscal Reform and Performance".

**TABLE 4**  
**CASH DISBURSEMENTS SCHEDULE, JANUARY TO JUNE 2007**  
**(IN BILLION PESOS)**

TYPE OF EXPENDITURES	Program	Actual	Difference
Other NG Expenditures	350.06	302.71	(47.35)
Interest Payments	149.86	129.63	(20.23)
Allocation to LGUs	76.47	99.78	23.31
Tax Expenditure	4.06	5.79	1.73
Net Lending	5.13	2.53	(2.60)
Equity	0.52	0.24	(0.28)
Subsidy	3.17	10.58	7.41
<b>TOTAL EXPENDITURES</b>	<b>589.27</b>	<b>551.26</b>	<b>(38.01)</b>

Source: Cash Operations Report

**2008 Revenue Projection.** CPBD foresees that a balanced budget will not be attained in 2008 as it projects that revenue collections will fall short of target by P13.3 billion (*see Table 5*). This is premised on a lower GDP growth of 5.6%-6% (CPBD estimate) due to the slow down in investments (1.1%-2.2%) and government consumption (4.6%-5.5%). A relatively low growth (3.8%-4.2%) in the agriculture, fisheries and forestry sector is also projected (*for related discussion, see Budget Briefer No. 2007-02*).

Given its past performance (1996-2006), the BIR would only be able to collect P818.32 billion or 11.25% of GDP instead of P845.0 billion as projected by DBCC. To maximize its tax collections, it is imperative for BIR to address the nagging problem of tax evasion/avoidance. It has been reported that around 30% of annual BIR collections is lost annually due to leakages in the tax system.<sup>10</sup> Improvements in tax administration become more urgent especially over the prospects of a 6.1%-6.8% economic growth (official estimate).

In the case of BOC, the CPBD simulation indicates that the revenue target of P254.5 billion is achievable and may even be exceeded by at least P6.5 billion. CPBD projects imports of goods and services to rebound in 2008—growing by 6.7%-8.8%. Thus, BOC personnel must be more vigilant in curbing technical and physical smuggling of imported items to be able to collect more revenues for the government.

As in the current year, privatization of government assets could help boost revenue performance. Based on data obtained from the Department of Finance, assets that are still up for sale are the following: (a) shares in San Miguel Corporation - P60.1 billion, (b) 40% of

<sup>10</sup> NTRC:2003 and Manasan:2004.

PNOC-EDC common shares - P36.3 billion, (c) Meralco shares - P11.3 billion and (d) Fujimi Property in Japan - P3.0 billion.

Consequently, total revenues of P1,222.93 billion against total cash disbursements of P1,236.23 billion will translate to a deficit of P13.3 billion or 0.18% of GDP (*CPBD estimate*). Attempts to balance the budget, that is, by constraining the spending program may entail delaying/sacrificing some projects under the President's social payback agenda.

**TABLE 5**  
**2008 REVENUE ESTIMATES**  
**(IN BILLION PESOS)**

PARTICULARS	DBCC Targets		CPBD Projection		Difference
	Amount	% of GDP	Amount	% of GDP	
BIR	844.95	11.60	818.32	11.25	(26.63)
BOC	254.48	3.49	254.48	3.50	-
Other Tax	9.46	0.13	9.82	0.14	0.32
Non-Tax Revenues	127.34	1.75	140.31	1.93	13.01
TOTAL REVENUES	1,236.23	16.97	1,222.93	16.82	(13.30)
Memo item: GDP, nominal	7,284.7		7,272.0		

Source: *BESF and CPBD simulation*

## REVENUE ENHANCEMENT MEASURES

**Administrative Measures.** The government has lined up several administrative measures that seek to beef up tax collections. Included in the BIR's list of revenue enhancement measures are the following: (a) audit of withholding tax compliance of top 10,000 corporations and GOCCs, (b) checking of reported sales using point of sale/cash register machines, (c) focus on specific cases filed before the Court of Tax Appeals to ensure successful prosecution and conviction of tax evaders under the RATE program, (d) computerization of 70% of RDOs completed by end of 2007, (e) launching of "premyo sa resibo" stations at 25 SM malls nationwide, (f) revisit ruling on tax exemptions, and (g) intensify third party information through information sharing with LGUs, among others. On the part of BOC, the following administrative measures will be pursued—improve assessment, increase law enforcement, strengthen internal audit, check transshipment, expand super green lane, collect from demandable assets and expand computerization.

Absent in the process, however, is an evaluation of the efficacy of these measures. Under Section 290 of the Tax Code, the Joint Congressional Oversight Committee is tasked to

review the implementation of the programs of the BIR, review its collection performance, and determine that the power of the Commissioner to compromise and abate is reasonably exercised, among other things. Also, RA 7650 calls for the creation of a Congressional Oversight Committee for Customs that will monitor the enforcement of the Tariff and Customs Code (TCCP), particularly on the physical examination of imported articles.

**Legislative Measures.** In addition to BIR and BOC initiatives, CPBD also sees the need for Congress to revisit certain provisions of the Tax Code and the TCCP. As mentioned earlier, collections from excise taxes fell sharply from 2.6% in 1997 to 0.96% in 2006. Despite automatic tax rate increases in 2005 and 2007, excise tax effort is expected to deteriorate further to 0.86% in 2008. One clear reason for the stunted growth in excise taxes is the prescription in the Tax Code of the net retail price (NRP quoted in 1997 prices) of cigarettes and fermented liquor on which tax rates will be computed. As shown in Table 6, many of the brands listed in Annexes C and D of the Tax Code are currently selling at much higher prices hence, should have been slapped with higher tax. But before BIR can do so, Congress must first revise the NRP schedules in the Tax Code.

**TABLE 6**  
**NET RETAIL PRICE OF CIGARETTES AND CORRESPONDING EXCISE TAX**

PRODUCT TYPE/ BRAND	Tax Code NRP	Statutory Excise Tax a/	NRP taken at random b/	Applicable Excise Tax
Premium (above P10) None		P26.06		
High-priced (P6.50-P10) Philip Morris M 100s Marlboro Red KS	P7.48 6.78	10.88 10.88	P20.00 19.00	P26.06 26.06
Medium-priced (P5-P6.50) Winston Red KS Hope Luxury KS Mark M 100s	5.55 5.86 5.66	6.74 6.74 6.74	13.50 13.50 13.50	26.06 26.06 26.06
Low-priced (below P5) Camel KS Champion M 100 Fortune Intl M KS Boss KS Evergreen M 100s	4.71 4.58 4.46 4.10 3.93	2.23 2.23 2.23 2.23 2.23	9.60 9.30 9.30 9.00 8.90	10.88 10.88 10.88 10.88 10.88

a/ effective 01 January 2007

b/ result of informal survey; net of VAT and excise tax

Source of Basic Data: Tax Code of 1997 and RA 9334

Another aspect that deserves attention is the wide disparity between the shares in total income tax payments of self-employed individuals/professionals (13%) as against salaried workers/employees (87%). There are several factors to explain the difference. One, employees use the gross income tax system while self-employed professionals adopt the net income method (i.e., total sales less cost of services/goods sold and all other business-related expenses). Two, business people voluntarily assess and declare their sales/receipts, expenses and net income while tax-related transactions of salaried workers are automatically captured through the withholding tax system. Obviously, the possibility of evasion, misdeclaration and fraud is higher among self-employed and professionals.

Before the Comprehensive Tax Reform Program (CTRP) was approved by Congress in 1997, business people and self-employed professionals are governed by the Simplified Net Income Tax System (SNITS). Under this system, allowable business expenses are limited to raw materials, direct salaries, utilities, rent, depreciation, contributions to government, and interest on loans. The tax rates used then were 3%, 9%, 15%, 20% and 30%. When the CTRP was passed, the SNITS was replaced by the net income tax basis that permits the deductibility of all business-related expenses and adopts the seven-tiered rate structure of 5%, 10%, 15%, 20%, 25%, 30% and 32%. After due consideration of the tax collection under the SNITS and net income methods, members of the 13<sup>th</sup> Congress proposed the re-introduction of the Simplified Net Income System (SNITS) for business people, self-employed individuals and professionals.<sup>11</sup>

Meanwhile, local entrepreneurs complain that their businesses are grossly disadvantaged because of unabated smuggling. The Philippine Center for Investigative Journalism reports that in 2003 alone, \$10 billion worth of imports were not taxed appropriately.<sup>12</sup> Using average tariff of 6.2%, VAT rate of 10% and average foreign exchange rate of P54.20, CPBD estimates that foregone revenues would easily translate to P86 billion—which is equivalent to 81% of BOC collection during that year. Table 7 shows the top sources of trade leakages, by country of origin and by commodity group. To address the problem, Congress should amend the TCCP i.e. provide more transparent rules for importation, strengthen the role of private sector in the valuation process, limit the discretionary powers of BOC people and impose heavier penalties for smuggling.<sup>13</sup>

<sup>11</sup> HB No 4906 (Committee Report No. 1198)

<sup>12</sup> Tess Bacalla 25-28 October 2004. available at [www.pcj.org/stories/2004/smuggling](http://www.pcj.org/stories/2004/smuggling).

<sup>13</sup> HB 4069 (transmitted to the Senate on 03 August 2005) and SB Nos. 1969, 1979 and 2154.

**TABLE 7**  
**TOP SOURCES OF TRADE LEAKAGES**  
**AVERAGE FOR 2002-2005**  
**(IN MILLION US DOLLARS)**

BY COUNTRY SOURCE	Value	By Commodity Group	Value
Japan	1,504	Electrical, electric equipment	1,575
China (Mainland)	1,084	Commodities not elsewhere specified	685
China (Hongkong)	628	Nuclear reactors, boilers, machinery	485
Singapore	581	Optical, photo, technical, medical apparatus	358
South Korea	581	Vehicles other than railway, tramway	289
Taiwan	566	Ores, slag and ash	248
Thailand	259	Plastics and articles thereof	231
Indonesia	250	Mineral fuels, oils, distillation products	177
Germany	134	Iron and steel	154
United Kingdom	117	Ceramic products	90

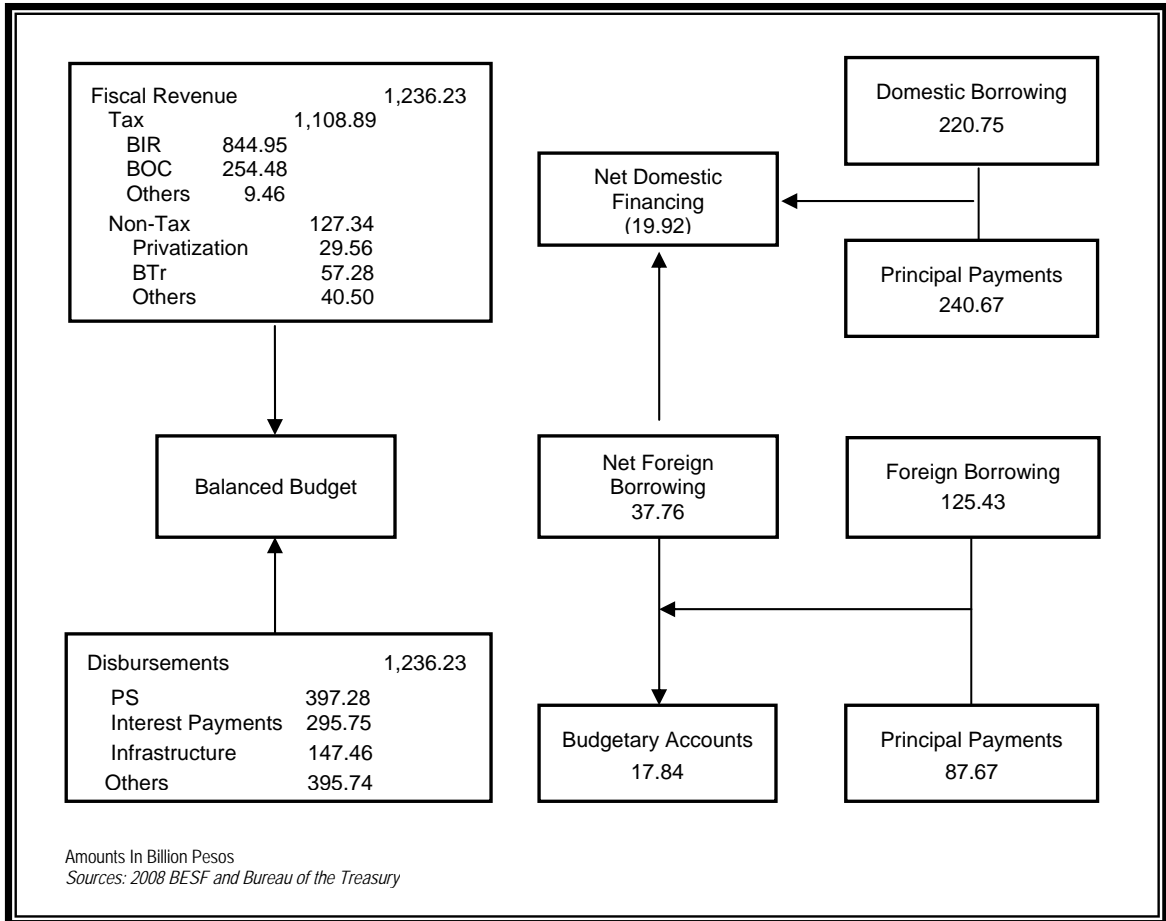
*Reference: Source of Leakages in Customs Collection: An Update for 2002-2005, Abola, Bedano and Tan*

## BORROWING PROGRAM

Despite a balanced budget, DBCC projects that borrowing during the year would amount to P346.2 billion—P220.75 billion (63.8%) from domestic sources and P125.43 billion (36.2%) from foreign sources. By borrowing from local sources, the government would be able to avoid foreign currency shocks or exchange rate fluctuations. However, the national government crowds out or competes with the private sector whenever domestic borrowing is resorted to. Thus, the need to tap the foreign credit market also.

Figure 3 shows that there will be net repayment of domestic debt by P19.92 billion as principal amortization (P240.67 billion) exceeds domestic borrowing. In addition, a standby fund amounting to P17.84 billion will also be maintained (i.e. budgetary account). This could explain why NG has to borrow more from foreign sources (P125.43 billion) than what is required for principal payments (P87.67 billion).

**FIGURE 3**  
**NG FISCAL PROGRAM, 2008**  
**(IN BILLION PESOS)**



By type of debt instruments, 93.27% of domestic borrowings or P205.90 billion would be in the form of long-term Treasury Bonds, that is, possibly outliving the term of the present administration (*see Table 7*). Note, however, that gross domestic borrowing would be much larger than P220.75 billion as gross flotation of Treasury Bills (P602.28 billion) and Treasury Bonds (P227.72 billion) would already add up to P830.0 billion.

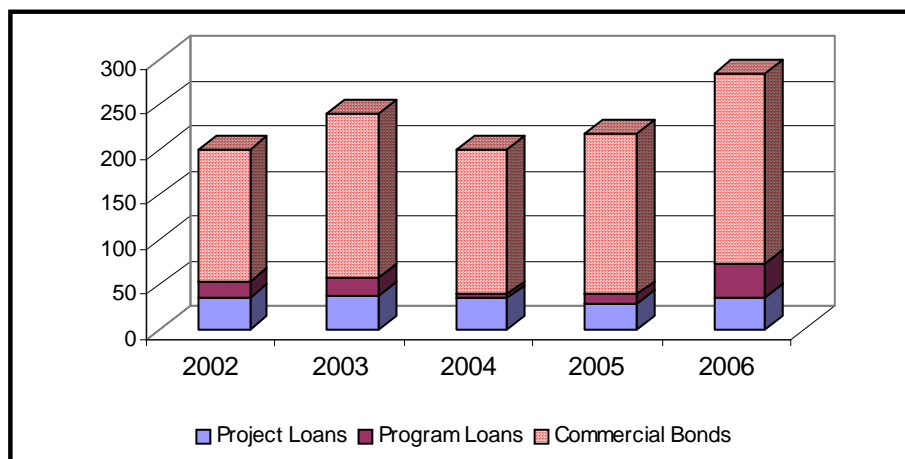
Another observable development is the less reliance on foreign bonds (38.3%) and more application for concessional debts (i.e. program and project loans). In earlier years, commercial bonds that carry higher interest rate dominate the foreign borrowing strategy of government (*see Figure 4*).

**TABLE 8**  
**BORROWING PROFILE, 2008**

PARTICULARS	Amount	%
<b>GROSS DOMESTIC BORROWING</b> [a+b]	220.75	100
Treasury Bills [a]	<u>14.85</u>	6.73
Gross Flotation	602.28	
Less: Maturities	(587.43)	
Fixed Rate Treasury Bonds [b]	<u>205.90</u>	93.27
Gross Flotation	227.72	
Less: Maturities	(21.82)	
Less: Principal Payments [c]	(240.67)	
Net Domestic Borrowing [a+b+c]	(19.92)	
<b>GROSS FOREIGN FINANCING</b>	125.43	100
Project Loans [d]	31.11	24.80
Program Loans [e]	46.32	36.93
Bonds and Other Inflows [f]	48.00	38.27
Less : Principal Payments [g]	(87.67)	
Net Foreign Financing [d+e+f+g]	37.76	
<b>GROSS DOMESTIC BORROWING AND FOREIGN FINANCING</b>	346.18	

Source: 2008 BESF

**FIGURE 4**  
**CONCESSIONAL AND COMMERCIAL LOANS, 2002-2006**  
**(IN BILLION PESOS)**



Source: BESF, various issues

**Advances to other Government Entities.** Part of annual NG borrowing requirements are amounts intended for advances to other government entities, specifically the Central Bank-Board of Liquidators (CB-BOL) and Net Lending to government-owned-and-controlled corporations (GOCCs). For 2008, estimated revenues of CB-BOL is P2.4 billion against projected expenditures of P13.04 billion or a deficit of P10.64 billion. Meanwhile, net lending (*i.e. advances less repayments*) to GOCCs is set at P12.0 billion. According to the BTr, GOCCs that have outstanding advances as of 31 August 2007 are as follows: (a) CB-BOL – P265.1 billion, (b) National Irrigation Administration – P19.0 billion, (c) National Electrification Administration – P13.5 billion, (d) Philippine National Railways – P8.6 billion, (e) Light Rail Transit Authority – P5.4 billion, (f) Public Estates Authority P4.5 billion.

Close monitoring of GOCC performance (including rationalization/privatization, if possible) must be undertaken to absolve the NG from financial responsibilities of inefficient state corporations. Similarly, a review must be undertaken on the propriety of NG advances to CB-BOL. As mentioned earlier, BTr advances to CB-BOL now stands at P265.1 billion—which even excludes other receivables of P137.02 billion<sup>14</sup> or a total receivables of P402.14 billion as of 31 August 2007.

One option that may be explored is the possibility of obliging the Bangko Sentral ng Pilipinas (BSP) to share in the debt service burden of the Board of Liquidators. The BSP charter (RA 7653) states that the BSP “may” financially assist the CB-BOL in the liquidation of CB liabilities. Currently, BSP has no direct liability for the payment of old CB debts.

<sup>14</sup> Bureau of the Treasury, *Monthly Consolidated Report on NG Exposure to/Receivable from GOCCs*

## CONCLUSION

To finance the President's social payback agenda and balance the budget by 2008, the Executive must go back to basic—increase tax collections. Proceeds from privatization may help improve the fiscal position but it is, at best, a short-lived measure as sale of assets is a one-off deal.

CPBD estimates that given the current BIR and BOC collection efficiency, revenue targets for 2008—and consequently a balanced budget, will not be met. However, there may be wisdom behind setting high targets—as long as realistic parameters are used. Relatively low assumptions could render tax collecting agencies to be complacent in improving their performance. Low fiscal assumptions could actually become self-fulfilling and degenerate into a spiral of low targets and poor performance.

For its part, Congress may consider amending certain tax laws (i.e. excise tax on sin products, SNITS, and TCCP provisions to curb smuggling). It should also actively exercise its oversight powers, particularly in the aspects of tax collection, GOCC financial performance and NG debt management strategies.

**ANNEX A**  
**EARMARKED REVENUES, 2008**  
**(IN THOUSAND PESOS)**

DEPARTMENT/AGENCY/FUND	Legal Basis	Balance as of 31 Dec 2006	2008	
			Revenues	Expenditure
<b>I. GENERAL FUND - PROPER</b>			<b>7,014,116</b>	<b>6,913,665</b>
Bureau of Internal Revenue	E.O. 1042		50,000	50,000
Bureau of Customs	E.O. 592		229,450	229,450
Department of Foreign Affairs DFA Building Fund	E.O. 282		291,349	291,349
Bureau of Quarantine and Intl Health Surveillance	RA 9271		32,000	32,000
Department of Agrarian Reform Fund for Agrarian Reform Education	RP-US Agreement PL 480		2,900	2,357
Philippine Science High School	RA 9036		4,240	4,100
Industrial Technology Devt Institute	RA 9236		2,150	2,150
Inter-Country Adoption Board	RA 8043		34,016	18,292
Maritime Industry Authority	RA 9295		321,943	296,701
Philippine Racing Commission	PD 420		110,000	51,198
Autonomous Region in Muslim Mindanao	RA 6734/ RA 9054		624,000	624,000
Special Shares from Collections of BIR, DENR and DOE, pursuant to existing laws	RA 7160		421,200	421,200
	RA 7171		607,501	607,501
	RA 8407/ RA 7963		10,000	10,000
	RA 7644/ RA 7227 DILG-DOF-DBM JC 99-2		3,977,000	3,977,000
	RA 7156		12,000	12,000
Department of Energy	PD 87		68,391	68,391
Dept of Environment & Natural Resources	RA 7 160		40,480	40,480
Mines and Geo-Sciences Bureau	RA 7160		48,496	48,496
<b>II. SPECIAL ACCOUNTS IN THE GENERAL FUND</b>		<b>24,001,325</b>	<b>21,938,155</b>	<b>14,764,161</b>
<b>A. ANNUALLY APPROPRIATED</b>		<u>1,007,970</u>	<u>220,537</u>	<u>125,292</u>
Fertilizer and Pesticide Authority	PD 1144	242,356	29,552	-

DEPARTMENT/AGENCY/FUND	Legal Basis	Balance as of 31 Dec 2006	2008	
			Revenues	Expenditure
Livestock Development Council	BP 1516	3,890	3,500	-
National Meat Inspection Service	RA 9296	89,024	34,359	30,000
Mines and Geosciences Bureau	RA 7942	28,960	14,901	13,471
Dept of Labor and Employment - OSEC	EO 1022	455,822	103,623	79,821
National Conciliation and Mediation Board	RA 6715	5,657	450	400
Statistical Research and Training Center Endowment Fund	EO 121	2,454	2,652	1,600
Housing and Land Use Regulatory Board	EO 648/EO 90	179,807	31,500	-
<b>B. AUTOMATICALLY APPROPRIATED</b>		<u>22,993,355</u>	<u>21,178,803</u>	<u>14,100,054</u>
Department of Energy OSEC Fund 151		9,893,484		449,157
	PD 972		159,166	
	PD 1442		200,000	
	PD 1234		5,609	
Production of petroleum from:	PD 87/910			
Oil- Matinloc, Nido, Libertad			265,080	
Gas – San Antonio			662	
Camago - Malampaya			1,233,404	
Production of petroleum gas-Malampaya			6,467,069	2,642,928
Technology Transfer Energy Management Program Fund 152	RA 7638	37,244	50	-
Protected Areas and Wildlife Bureau National Integrated Protected Areas System (NIPAS)	RA 7586	17,947	12,586	12,586
Environmental and Management Bureau Air Quality Management Fund	RA 8749	41,380	43,506	43,506
Bureau of Internal Revenue	PD 1991		732,000	732,000
Insurance Commission Insurance Commission Fund	RA 8421/ PD 612	2,123,921	498,517	73,645
Department of Health OSEC			28,180	28,180
Department of Justice OSEC	RA 9279	159,294	121,500	121,500
Land Registration Authority	PD 1529	3,207,141	521,768	174,271
Office of the Solicitor General	PD 736, LOI 270 EO 292/482		398	380
Dept of Public Works & Highways OSEC	RA 8794			
Special Road Support Fund		3,234,735	6,425,600	6,425,600
Special Local Road Fund		758,684	401,600	401,600
Special Road Safety Fund		613,473	602,400	602,400

DEPARTMENT/AGENCY/FUND	Legal Basis	Balance as of 31 Dec 2006	2008	
			Revenues	Expenditure
Dept of Transportation & Comm OSEC Special Vehicle Pollution Control Fund	RA 8794	1,646,817	602,400	576,401
Land Transportation Ofc-Seat Belt Fund	RA 8750	53,775	50,289	32,945
Office of Transportation Security Nat'l Council for Civil Aviation Security	LOI-414 A EO 277	225,790	458,947	229,752
Dept of Social Welfare & Devt.- OSEC	RA 5416		24,749	24,749
Council for the Welfare of Children and Youth	RA 8980	61,933	300,000	300,000
Commission on Higher Education Higher Education Development Fund 40% of PTA Travel Tax collections 30% of PRC Fees 1% of PCSO Lotto sales	RA 7722	655,408	1,300,000 35,500 97,000	854,000
Dangerous Drugs Board	RA 9165	8,750	77,000	77,000
Film Development Council of the Phil	RA 9167	58,454	187,674	6,912
Games and Amusement Board	PD 871	5,834	8,750	8,750
National Commission on Culture & Arts National Endowment Fund	RA 7356	187,787	279,137	243,530
Philippine Sports Commission	RA 6847		25,262	25,262
Cultural Center of the Philippines	PD 69, Sec 143; NIRC Act 2613,		3,000	3,000
Philippine Coconut Authority	PD 1234	1,504	10,000	10,000
<b>C. FOREIGN GRANTS</b>			<b><u>538,815</u></b>	<b><u>538,815</u></b>
National Agricultural and Fishery Council	Japan Grant		442,776	442,776
Department of Energy - OSEC	WB-GEF TF-052188 WB-GEF TF-053360 PH		84,320	84,320
Department of Trade & Industry - OSEC	IFAD		4,715	4,715
<b>TOTAL EARMARKED REVENUES</b>		<b>24,001,325</b>	<b>28,952,270</b>	<b>21,677,826</b>

Source: 2008 BESF, DBM