



2009 BUDGET BRIEFER

CONGRESSIONAL PLANNING AND BUDGET DEPARTMENT

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THE MACROECONOMIC PERSPECTIVE: Structural Reforms and an Enduring Hope for Change¹

*One thing is also clear in this new world in which we now live: the Philippines must—
and is—taking greater control of our own destiny.*

*The President's Budget Message
August 2008*

MACROECONOMIC TARGETS AND THE FISCAL PROGRAM

The President's national obligation budget² proposal of P1.415 trillion for fiscal year 2009 is roughly 16.3% of projected nominal gross domestic product (GDP)³ in the same year.

The 2009 Budget of Expenditures and Sources of Financing (BESF) indicates that the Executive is targeting tax revenues of P1.279 trillion (or 14.7% of GDP) to support almost 89.2% of the proposed cash disbursement program of P1.433 trillion while P114.4 billion from non-tax sources is intended to shore up approximately 8.0% of disbursements. The balance in the disbursement schedule amounting to P40 billion (roughly 0.46% of GDP) is expected to be deficit-financed.

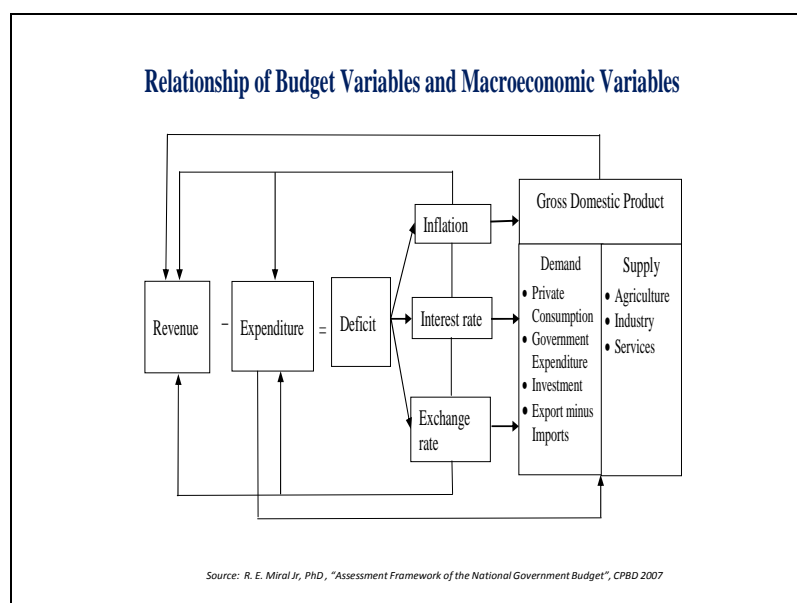
Germane to the analysis of the proposed national expenditure program is an assessment of the underlying macroeconomic assumptions/targets and expected resource availability, especially so amid risks and uncertainty.

Outcomes of the national accounts of the Philippines are usually eagerly awaited since the President's fiscal budget hinges on macroeconomic targets or assumptions. Economic growth when coupled with responsive tax collection effort could mean more revenues to support national development expenditures.

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² Obligation basis budgeting only accounts for current year's expenditure requirements. On the other hand, cash budgeting reports expenses as they are paid regardless of the period when the obligation was made.

³ Based on 2009 BESF assumption of P8.692 trillion nominal GDP, or the low-end 6.1% official GDP growth target in 2009.



Note that in 2007, the three-decade high GDP growth of 7.2% surpassed the government's target range of 6.1%-6.7%. However, the actual tax take of P932.9 billion missed the BESF target of P973.6 billion (based on the low-end 6.1% growth assumption) by a whopping P40.7 billion. As such, the tax effort or the ratio between the government's tax and duty collection vis-à-vis GDP was only 14.0%, which is off the target of 14.7%. Subdued inflation and the appreciation of the peso then served to mitigate the positive impact of economic growth on potential revenues. Nonetheless, fiscal performance as indicated by tax buoyancy, which measures the responsiveness of tax collection effort to GDP growth, is critical.

TABLE I - VARIANCES IN 2007-2008 ASSUMPTIONS/TARGETS

OFFICIAL TARGETS/ ASSUMPTIONS	BESF 2008 (A)	BESF 2009 (B)	Variance (B - A)
Real GDP Growth Rate (%)			
2007	6.1	7.2	1.1
2008	6.1	5.5	-0.6
Nominal GDP (P billion)			
2007	6,609.7	6,648.2	38.5
2008	7,284.7	7,681.9	397.2
Tax Effort (Tax/GDP)			
2007	14.7	14.0	-0.7
2008	15.2	14.6	-0.6
Tax Revenues (P billion)			
2007	973.6	932.9	-40.7
2008	1,108.9	1,123.6	14.7

Further, a GDP growth scenario between 6.1% and 6.8% (recently downscaled to 5.5%-6.4%, and which was proposed by NEDA Planning Secretary Recto⁴ to be scaled back further) is supposed to underpin the 2008 national budget. However, the Philippine economy has once again manifested its chronic vulnerability to both internal and external downside risks. Growth in the gross domestic product in the first half of 2008 sharply decelerated by three percentage points to 4.6% from 7.6% in the same period of 2007. The high inflation regime and the slowdown in the advanced economies have been cited by the national planning and statistical agencies for causing such “uninspiring growth”. Lower-than-expected economic performance could imperil the overall 2008 fiscal program and adversely impact on welfare-enhancing national development priorities and requirements.

For 2009, the sustainability of the proposed overall fiscal program of the national government hinges on a set of macroeconomic assumptions contained in the BESF, including real GDP growth between 6.1% and 7.1% and inflation within the range of 6.0%-8.0%.

It is imperative to reiterate that amid downside risks that could keep on dampening growth, the call is for sustained reforms that would enable the economy to mitigate vulnerabilities and withstand uncertainties in the short term. Ultimately, the country has to persist in pursuing structural reforms that boost productivity and competitiveness by building on the “social infrastructure for value creation toward enhancing the well-being of the Filipino” (*Estrada / Alba 2007*).

Fiscal policy should be prudent to preclude overly sanguine revenue projections that typically lead to mid-year cutbacks or accumulation of arrears (*WB 2002*), especially so in view of a volatile global outlook and emerging internal constraints.

In particular, the national expenditure program, in itself, is a potent tool that could influence aggregate demand. Crafting a productive development-oriented national budget should be anchored in clear and strategic priorities ranked on the basis of cost-benefit analyses and effectiveness in meeting national development objectives. A national expenditure program that embodies the efficient allocation of scarce resources among competing public priorities and objectives can in turn serve growth-enhancing, employment-generating, and redistributive⁵ functions that ultimately impact on poverty⁶.

⁴ Media reports as of 09 September 2008.

⁵ Redistributive services must be effectively targeted toward the fight against poverty and ensure that these do not distort work incentives and are not pre-empted by the non-poor or riddled with leakages from graft and corruption.

⁶ An econometric study prepared by Reside (2006) for the NEDA showed, for instance, that sectoral expenditure on education ranked highest in terms of impact on both growth and poverty—a 1.0% increase in expenditure leads to a 0.0475% addition to the growth rate and a 0.0958% decline in the level of poverty incidence—while combined outlay for agriculture and agrarian reform ranked second in terms of impact on poverty.

MACROECONOMIC OVERVIEW

Economic Performance. Volatile global fuel prices, escalating costs of production, continued spiraling prices of commodities and services, slowdown in the global economy, and a corollary weakening in external demand, all served to dampen GDP growth to 4.6% in the first half of 2008. The sharp deceleration in economic performance casts doubt on the government's ability to meet even the already scaled down low-end GDP growth assumption of 5.5% for fiscal year 2008.

**TABLE 2 - ECONOMIC PERFORMANCE
(GROWTH RATE, %)**

PARTICULARS	Semestral (YoY)		Quarterly (YoY)	
	2007S1	2008S1	2008Q1	2008Q2
<i>By Industrial Origin</i>				
Agriculture, Fishery & Forestry	4.1	3.7	2.7	4.9
Industry	8.6	3.9	3.0	4.8
Services	8.4	5.4	6.5	4.3
<i>By Expenditure Share</i>				
Personal Consumption Expenditure	5.7	4.3	5.2	3.4
Government Consumption	10.8	-1.9	1.9	-5.1
Capital Formation	13.0	9.4	4.0	14.7
Exports	7.6	1.2	-6.1	7.7
Imports	-6.5	-3.4	-5.8	-1.0
GDP	7.6	4.6	4.7	4.6
Net Factor Income from Abroad	18.7	15.9	18.3	14.1
GNP	8.6	5.7	5.8	5.5

Source: National Statistical Coordination Board

Contributing to the prevailing overall weakness of the Philippine economy during the period are key issues and concerns in certain sectors, which include:

- **Slackening Consumption Expenditure.** Even with the continued upsurge in OFW remittances, growth in personal consumption expenditure (PCE) weakened to 4.3% in the first semester (2008S1) compared with the 5.7% expansion in a similar period in 2007. Soaring prices of fuel, food, and other commodities constrained PCE growth, which is a major driver of the economy on the expenditure side.

- **Falling Government Consumption.** After recording double-digit growth of 10.8% in 2007S1 on account of the stimulus accruing from robust government-spending during an election period, government consumption expenditure (GCE) slid down drastically by 5.1% in the second quarter (2008Q2) and by 1.9% in 2008S1.
- **Erratic Growth in Public Construction.** Public construction plummeted by 8.5% in 2008S1 compared with the 43.4% growth in 2007S1. Poor absorptive capacity of implementing agencies and more expensive construction costs have been cited as contributing to the poor performance of public construction. Further, delayed approval (January 2008) and signing (March 2008) of the national budget have constrained the ability of the government to pump-prime the economy through infrastructure spending.
- **Fragile Exports and Imports.** While total exports partly recovered with a 7.7% increase in 2008Q2 from a 6.1% decline in 2008Q1, first half 2008 growth is still an anemic 1.2%. Worrisome is the continuing decline in total imports, particularly the steep fall in electronics imports (*BW 2008*). Electronics has remained the country's main export commodity, which is highly import-intensive. Hence, the challenge of diversifying export products and markets, while ensuring backward linkaging of the electronic and semiconductor industries remains (*Lim 2007*).
- **Slowdown in Services.** The services sector, which comprises almost 45% of the domestic economy and until recently is deemed the growth engine of the economy, faltered from its robust growth of 8.4% in 2007S1 to 5.4% in 2008S1. Except for ownership of dwellings and real estate (ODRE), which has so far sustained its growth trajectory, almost all other subsectors under services have been hit by downturns. High cost of fuel which hit the \$147/barrel mark in the global market, weighed heavily on the transportation, communications and storage (TCS) subsector. TCS decelerated by 4.4% in 2008S1 from its 10% growth in 2007S1. Weak consumption due to high prices of commodities likewise adversely affected trade, which recorded lower growth of 4.4% in the 2008S1 compared with 7.4% in 2007S1. Ongoing turmoil in the global financial markets and internal constraints have tamed down the growth of the finance subsector to 7.2% in 2008S1 from a double digit high of 15.2% in 2007S1.
- **Softening of Industry Growth.** The industry sector, which accounts for almost 30% of GDP, softened in 2008S1 as it posted growth of merely 3.9% from 8.6% in 2007S1. The slump in mining and quarrying, as well as the slowdown in construction dragged industry growth during the period. The volatile mining and quarrying subsector registered in 2008S1 a 5.3% decline, a far cry from its 28% expansion in 2007S1. Meanwhile, construction decelerated to 8.3% in the second quarter from 37% growth last year.

On the other hand, manufacturing gross value added, whose quarterly growth is seen as being strongly and positively correlated to or associated with average quarterly foreign exchange rate movements notched a 6.1% expansion in the second quarter of 2008 and 4.3% in 2008S1 compared with 3.4% in 2007Q2 and 3.7% in 2007S1, respectively.

Comparative Economic Outlook. The Development Budget Coordinating Committee (DBCC) has officially reconsidered the macroeconomic assumptions by scaling down its 2008 economic growth target range to 5.5%-6.4% from the 6.3%-7.0% scenario that it approved last December 2007. Adverse circumstances in global markets and geopolitics, rising inflation, and internal constraints have continued to weigh down on the 2008 economic outlook and beyond.

TABLE 3 - PHILIPPINE GDP GROWTH PROSPECTS (%)

PARTICULARS	2008	2009
NSCB Release (August 2008)	4.6 – S1	
BESF 2008	6.1 – 6.8	
DBCC (December 2007)	6.3 – 7.0	
DBCC (unofficial media reports)	5.7 – 6.6	
BESF 2009	5.5 – 6.4	6.1 – 7.1
CPBD (September 2007)	5.6 – 6.0	
CPBD (February/March 2008)	5.5 – 6.0	
CPBD (September 2008)	4.6 – 5.1	4.9 – 5.7
Multilateral Institutions		
ADB (September 2008)	4.5 ^u	4.7 ^u
IMF (June / April 2008)	5.2 ^u	5.8
WB (April 2008)	5.9 ^u	6.1

Sources: NSCB National Accounts as of August 2008; BESF 2008 & 2009; ADB Asian Development Outlook 2008 Update (September 2008); IMF Mission (June 2008) / IMF Regional Economic Outlook Asia Pacific (April 2008); World Bank Report 2008 Note: u – update

Still the government, through the DBCC, has maintained an optimistic outlook in 2009 by setting an official 6.1%-7.1% GDP growth target range in the BESF 2009 documents that were released in the last week of August 2008. The proposed 2009 national budget is based on the economic growth target, which in turn is based on a set of macroeconomic assumptions such as inflation rate, oil price based on the Dubai rate, treasury (T) bill rate, and the exchange rate.

The Congressional Planning and Budget Department (CPBD) has earlier expressed concern in its *2008 Budget Analysis* that “the economy remains vulnerable to global downside risks in 2008 and could still be weighed down by domestic issues”. Then, the CPBD took a more cautious stance projecting 2008 GDP growth to range between 5.6%-6.0%. With the revisions in August 2008 in the quarterly national accounts by the National Statistical Coordination Board (NSCB), the CPBD is herewith reckoning that GDP growth would hover between a more conservative 4.6%-5.1% range in 2008. Growth in 2008 would most likely be on the low side in view of the expected adverse ramifications of the U.S. financial market turbulence in today’s world of increased financial integration and capital mobility, and considering the NSCB’s announcement of a slowdown in the composite leading economic indicator (LEI) in the third quarter of 2008 to 0.451 from 0.484 in the second quarter and that only five of eleven indicators contributed positively to the composite LEI in 2008Q3 (*Virola 2008*). On the other hand, a more sanguine 2009 economic outlook hovering within the range 4.9%-5.7%—though lower than the official target—might still evolve if the global outlook were to improve with the mitigation of downside risks and the fall-out from the U.S. financial saga bottoms out, if pre-election fever prior to 2010 buoys up confidence in the domestic front, and if an enduring hope for change holds amid internal issues and conflicts.

The multilateral institutions have also started to shift away from their erstwhile relatively optimistic forecasts for 2008. An International Monetary Fund mission in June 2008 scaled down the IMF’s 2008 prognosis to a 5.2% GDP growth from its projection of 5.8%. Thereafter, the Asian Development Bank in its *Asian Development Outlook 2008 Update* (*September 2008*) has already downgraded its GDP forecast to 4.5% for 2008 and 4.7% for 2009. Likewise, come October, the World Bank would most likely trim down its 5.9% 2008 growth outlook.

Even economists in the academe have been more circumspect in their forecasts. The Ateneo Center for Economic Research and Development, using the Ateneo Macroeconomic Forecasting Model, has estimated GDP growth in both 2008 and 2009 to settle at 4.5% to 5.3%. (*BM 2008*)

Cross-Country Comparison. While external shocks and internal issues have buffeted the Philippine economy during the first half of 2008, neighboring countries in Asia have in one way or another been likewise affected by economic turbulence in the second quarter of 2008. Socio-economic Planning Secretary Recto cited growth rates of certain Asian economies in 2008Q2 (year-on-year) vis-à-vis 2007Q2: Singapore – 2.1% vs. 9.1% and Hong Kong – 4.2% vs. 6.2%. Vietnam’s GDP grew 6.5% from 7.8% while Taiwan’s economy slowed down to 4.3% from 5.2%.

The Philippines is expected to post low growth rates compared with its Southeast Asian counterparts. China is bound to cool down from double-digit growth in 2007. Advanced economies (U.S., Japan, and the Eurozone) are all expected to slow down in 2008-2009.

TABLE 4
COMPARATIVE GROWTH PERFORMANCE
(GROWTH RATE, %)

ECONOMIES	2008Q1	2008Q2
Philippines	4.7	4.6
Malaysia	7.1	6.3
Indonesia	6.3	6.4
Thailand	6.0	5.3
Singapore	6.7	2.1
India	7.9	-
Korea	5.8	4.8
Taiwan	6.1	4.3
China	10.6	10.1
Vietnam	7.4	6.5

Source: NSCB and various websites (economic planning and statistical agencies and central banks)

TABLE 5
CROSS-COUNTRY COMPARISON
GDP GROWTH RATES (%), 2007-2009

ECONOMIES	2007	2008			2009		
	Actual	ADB	IMF*	WB	ADB	IMF	WB
Philippines	7.2	4.5	5.2	5.9	4.7	5.8	6.1
Indonesia	6.3	6.2	6.1	6.0	6.2	6.3	6.4
Malaysia	6.3	5.6	5.0	5.5	5.3	5.2	5.9
Thailand	4.8	5.0	5.3	5.0	5.0	5.6	5.4
Vietnam	8.5	6.5	7.3	8.0	6.0	7.3	8.5
China	11.9	10.0	9.3	9.4	9.5	9.5	9.2
Korea	5.0	4.6	4.2	4.6	4.5	4.4	5.0
Singapore	7.7	4.2	4.0		4.6	4.5	
Taiwan	5.7	4.2	3.4		4.6	4.1	
Hong Kong	6.4	4.5	4.3		4.5	4.8	
<i>Advanced Economies</i>							
U.S.	2.2	1.5			1.6		
Japan	2.1	1.5	1.4	1.5	1.5	1.5	2.0
Euro zone/area	2.6	1.8			2.0		

Sources: ADB Asia Economic Monitor 2008 Regional Update (July 2008) for data on Advanced Economies / Asian Development Outlook 2008 Update (September 2008) for data on Asian Economies; IMF World Economic and Financial Survey: Regional Economic Outlook Asia Pacific (April 2008) except Philippines 2008 – IMF mission (June 2008); World Bank East Asia Regional Update (April 2008)

Sectoral Growth Assumptions. Official 2008 GDP growth targets were trimmed down to 5.5%-6.4%, hewing close to the CPBD original forecast. However, in view of the revisions made by the NSCB in the national accounts⁷ in August 2008, the CPBD revisited its estimates to arrive at a lower projected range of 4.6%-5.1% GDP growth in 2008. With the revisions, the consensus forecast that is emerging is well below the official target.

The CPBD's GDP growth outlook of 4.9%-5.7% for 2009 is more conservative than the BESF assumption of 6.1%-7.1%. The CPBD's growth projections were derived using a combination of forecasting, sectoral analysis, and programming techniques. Table 5 shows the details of the growth projections both by industrial origin and by expenditure shares.

TABLE 6 - SECTORAL GROWTH ASSUMPTIONS

PARTICULARS	2007	2008			2009	
	Actual ¹	Actual H1 ¹	DBCC ² Targets	CPBD ³ Fcast	DBCC ² Targets	CPBD ⁴ Fcast
<i>By Industrial Origin</i>						
Agriculture, Fishery & Forestry	4.9	3.7	4.3 - 5.2	3.4 - 4.1	5.1 - 6.2	3.5 - 4.2
Industry	7.1	3.9	5.0 - 6.4	3.9 - 4.5	6.2 - 7.1	3.9 - 4.8
Services	8.1	5.4	6.3 - 6.9	5.5 - 5.9	6.5 - 7.4	6.0 - 6.7
<i>By Expenditure Share</i>						
Personal Consumption Expenditure	5.8	4.3		4.0 - 4.6		4.4 - 5.0
Government Consumption	8.3	-1.9		1.3 - 3.3		3.3 - 7.1
Capital Formation	11.2	9.4		6.4 - 10.7		3.1 - 7.9
Exports	5.6	1.2		2.1 - 4.1		5.2 - 7.0
Imports	-4.5	-3.4		-3.2 - 2.1		3.3 - 5.8
GDP	7.2	4.6	5.5 - 6.4	4.6 - 5.1	6.1 - 7.1	4.9 - 5.7
Net Factor Income from Abroad	16.5	15.9		11.7 - 14.3		6.4 - 8.5
GNP	8.0	5.7	5.9 - 6.7	5.2 - 5.9	6.9 - 7.8	5.0 - 5.9

¹NSCB Update as of August 2008. ²As of the BESF 2009 released August 2008 and NEDA Presentation as of September 2008

³Update as of September 2008 ⁴CPBD Forecast as of September 2008 from simulations by the Congressional Economic Planning Service.

✎ **Agriculture.** In its updated simulations, the CPBD reckons agriculture to grow between 3.4% and 4.1% in 2008 and a tad higher in 2009 within a range of 3.5%-4.2%. Agriculture has always been subject to the vagaries of the weather. In 2008 and 2009, however, the high cost of fuel, fertilizer, and feeds would constrain the growth prospects of the sector. Volatile high oil prices have inflated the cost of most agricultural inputs from fertilizers, feeds, and freight of bulk commodities thereby adversely affecting not only farms but also aquaculture, fishing, poultry and livestock. Further, the flare-up of hostilities in the south

⁷ Note that actual first half 2008 national accounts data released by the NSCB shows a statistical discrepancy in real terms of (P61.4 billion) between the supply and the demand side, which figure is already more than the level of government consumption of P48.8 billion.

would impact on farm production and transport especially in critical areas. High production costs, in turn, translate to unstable and higher prices of food commodities, which hurt the poor and the marginalized the most. Although certain studies (e.g., Mundlak et al 2002) reveal that a favorable price environment has the potential positive effect on agricultural output.

↪ *Industry.* The outlook for the industry sector points to an expected slowdown between 3.9% and 4.5% in 2008, and moderate growth of 3.9%-4.8% in 2009. Manufacturing seems to be holding on respectably better-than-expected with 4.3% growth in the first half of 2008 in spite of more expensive production costs in fuel, power, and wages. The depreciation of the peso in the period has offered relative respite for manufacturing, which grew 6.1% in the second quarter of 2008 thereby reversing its decelerating growth path. As mentioned, quarterly growth in manufacturing gross value added has been observed to be positively correlated with movements in the foreign exchange rates. Electricity, gas and water would continue to sustain its growth trajectory. Growth in mining and quarrying remains volatile. Even with higher production cost, the private sector has been taking up the slack in construction from the public sector, which seems to be ailing from poor absorptive capacity. In 2009, a pre-election year, a rebound is expected to revitalize public sector construction especially with the need to finish projects of the incumbent administration.

↪ *Services.* Adverse developments in the global markets (e.g., energy, finance) have finally crept into the domestic front with the drastic downturn in the services sector. However, the sector would most likely rebound in 2009—a pre-election year, where services would again emerge as a “pre-election” engine. The cooling of volatile high fuel prices would serve the transportation, communication, and storage sub-sector in good stead in the coming year. Political outcomes emanating from the U.S. elections in November would provide a clearer view of the directions of the business process outsourcing (BPO) industry in 2009. The fall-out from the ongoing financial turmoil in the U.S. would aggravate risk aversion not only in the global markets but also in the local finance sub-sector.

↪ *Demand-Side.*

Personal consumption expenditure has manifested tempered growth owing to spiraling inflation and the constraining effect of high oil prices on consumer spending. This moderation will continue to play out until 2009, notwithstanding the hefty inflow of remittances that was supposed to boost private spending. The pre-election ball game would most likely perk up consumer spending towards the latter part of 2009. Continuing inflationary pressures would however serve to dampen consumption. Remittances used for consumption is not growth-sustaining, hence the call continues for tapping remittances for capital formation or development projects.

FACTORS AFFECTING ECONOMIC PROSPECTS

↳ *Inflation Rate.* Spiraling inflation, which has jumped more than two-fold from 4.9% in January 2008 to 12.2% in July 2008, has greatly dashed consumption expenditures.

The DBCC forecasts inflation rate to average 9.0%-11.0% in 2008 and taper off to 6.0%-8.0% in 2009. The CPBD reckons 2008 annual inflation to hover between 10.5%-11.9%. By 2009, certain supply-side constraints would have been resolved to mitigate inflation below the 8.0% level assumed in the BESF, although breaching such level remains a distinct possibility. To the extent possible, the BSP could resort to its inflation-targeting arsenal to achieve the inflation objective—but at the cost of slowing growth by depressing economic activity (*ADB 2008*).

With the supply of food accounting for over 50% of the inflation basket, the majority of Filipino consumers, most especially the poor, have definitely been hit hard. Supply-side bottlenecks must be addressed to help stabilize food prices. Breaking down the barriers to the flow of both inputs to and outputs of agriculture would not only mitigate the cost of production but also fuel further investments and foster competitive prices for agricultural produce. Constraints to domestic production should be resolved by efficient importation to preclude rent-seeking that aggravates the burden of the suffering masses.

TABLE 7 - FACTORS AFFECTING ECONOMIC PROSPECTS

PARTICULARS	2007	2008		2009	
	Actual	DBCC ¹	CPBD ²	DBCC ¹	CPBD ²
Inflation Rate, CPI (2000=100)	2.8	9.0 – 11.0	10.5 – 11.9	6.0 – 8.0	6.0-8.0
Dubai Oil Price (US\$/Barrel)	68.37	115 - 125	100 – 120	115 – 125	115 - 125
91-day Treasury Bill (%)	3.4	6.0 – 8.0	6.0 – 8.0	5.0 – 6.0	5.0 – 6.0
Exchange Rate (P:\$)	46.15	42.00 – 45.00	42.00 – 45.00	42.00 – 45.00	43.50 – 46.50

Notes: ¹Per BESF 2009

²As of September 2008

↳ *Dubai Oil Price.* Most bets were off when the price of Dubai oil averaged \$87.2 per barrel in January 2008 before peaking at an average of \$132 in July 2008. The DBCC is now projecting the average price of Dubai oil to settle between \$115-\$125 in 2008 and 2009. On the other hand, the CPBD expects Dubai oil to range lower than the DBCC estimates in 2008. While the CPBD goes with the DBCC's assumption for 2009, it does not discount the likelihood of prices again breaching the \$125 level. The debate still rages on whether the volatile high fuel prices were based on fundamentals or were merely speculative.

- ↪ *91-day Treasury Bill.* The DBCC forecasts the benchmark interest rate to hover between 6.0%-8.0% in 2008 and 5.0%-6.0% in 2009. The CPBD would adhere to the interest rate directions set by the BSP, given its hold on the policy tools.

- ↪ *Exchange Rate.* The DBCC surmises foreign exchange expectations between P42.00-P45.00 to \$1.00 in 2008 and 2009. The CPBD, however, is looking at a further depreciation of the peso in 2009 to a level between P43.50-P46.50 to \$1.00.

ECONOMIC AND FISCAL⁸ SCENARIOS

While P1.415 trillion (16.3% of GDP) is the President's national obligation budget proposal for fiscal year 2009, the proposed cash disbursement program is P1.433 trillion.

The DBCC has veered away from its plan of achieving a balanced budget in 2008, given the volatility in both the global and domestic outlook. The DBCC's emerging 2008 budget deficit scenario would be roughly 1.0% of GDP, or P75 billion. The deficit is targeted to be halved (0.46% of GDP or P40 billion) in 2009 before the planned implementation of a balanced budget in 2010.

The deficit targets for 2008 and 2009 are anchored in the DBCC's "low-growth" assumptions of 5.5% GDP growth in 2008 and 6.1% in 2009. Corollary fiscal performance in 2008 (16.3% revenue effort, 14.6% tax effort, and 11.0% BIR effort) and in 2009 (16.0% revenue effort, 14.7% tax effort, and 11.1% BIR effort) supposedly underpin the expected official deficit assumptions. However, various quarters have already been calling for the recasting of the growth and deficit scenarios—the growth targets for being too sanguine and unlikely to be feasible, and the resulting deficit expectations to reflect more realistic revisions in the macroeconomic assumptions.

Assuming the more conservative CPBD growth scenarios of 4.6% in 2008 and 4.9% in 2009, with the same fiscal performance as assumed by the DBCC, would most likely yield deficit estimates of P85.8 billion (1.13% of GDP) in 2008 and P68.0 billion (0.8% of GDP) in 2009.

On the other hand, the CPBD's higher-end growth outlook of 5.1% in 2008 and 5.7% in 2009 coupled with the same fiscal performance would post deficit outcomes of P80.4 billion (1.05% of GDP) and P53.2 (0.8% of GDP), respectively.

⁸ The CPBD fiscal scenarios using the CPBD-assumed fiscal performance were simulated jointly by the CPBD's Congressional Economic Planning Service and the Congressional Budget Service.

The expected deficit derived from utilizing the CPBD growth scenarios and its own revenue and tax effort assumptions is almost twice as high as the official target. The CPBD growth outlook combined with CPBD-assumed fiscal performance in 2008 (15.8% revenue effort, 14.1% tax effort, and 10.6% BIR effort) and in 2009 (15.9% revenue effort, 14.5% tax effort, and 11.1% BIR effort) would result in a 2009 deficit of either P79.1 billion (0.9% of GDP) under a low-growth scenario or P64.4 billion (0.7% of GDP) under a more optimistic growth perspective.

	OFFICIAL		CPBD SCENARIOS BASED ON:			
	BESF TARGETS / ASSUMPTIONS		CPBD-assumed GDP Growth Rates		CPBD-assumed Tax and BIR efforts	
Real GDP Growth Rate						
2008	5.5	6.4	4.6	5.1	4.6	5.1
2009	6.1	7.1	4.9	5.7	4.9	5.7
Nominal GDP (P billion)						
2007	6,648.2		6,648.2	6,648.2	6,648.2	6,648.2
2008	7,681.9	7,741.7	7,615.5	7,648.6	7,615.5	7,648.6
2009	8,691.5	8,833.2	8,517.4	8,609.4	8,517.4	8,609.4
Tax Effort (Tax/GDP)						
2008	14.6		14.6	14.6	14.1	14.1
2009	14.7		14.7	14.7	14.5	14.5
Tax Revenues (P billion)						
2008	1,123.6		1,113.9	1,118.7	1,072.1	1,076.7
2009	1,278.9		1,253.3	1,266.8	1,230.8	1,244.1
BIR Effort (BIR/GDP)						
2008	11.0		11.0	11.0	10.6	10.6
2009	11.1		11.1	11.1	11.1	11.1
BIR Revenues (P billion)						
2008	845.2		837.9	841.5	806.4	809.9
2009	968.3		948.9	959.2	945.0	955.2
BOC Revenues (P billion)						
2008	269.0		266.7	267.8	255.4	256.5
2009	300.1		294.1	297.3	274.7	277.6
Non-Tax Revenues (P billion)						
2008	127.3		126.2	126.7	128.2	128.7
2009	114.4		112.1	113.3	123.5	124.8
Revenue Effort (Tot Rev/GDP)						
2008	16.3		16.3	16.3	15.8	15.8
2009	16.0		16.0	16.0	15.9	15.9
Total Revenues (P billion)						
2008	1,250.9		1,240.1	1,245.5	1,200.3	1,205.5
2009	1,393.3		1,365.4	1,380.1	1,354.3	1,368.9
Total Disbursements						
2008 Disbursements (P billion)	1,325.9		1,325.9	1,325.9	1,325.9	1,325.9
2009 Disbursements (P billion)	1,433.3		1,433.3	1,433.3	1,433.3	1,433.3
Estimated Deficit						
2008 Deficit (P billion)	(75.0)		(85.8)	(80.4)	(125.7)	(120.4)
Ratio to GDP	(0.98)		(1.13)	(1.05)	(1.65)	(1.57)
2009 Deficit (P billion)	(40.0)		(68.0)	(53.2)	(79.1)	(64.4)
Ratio to GDP	(0.46)		(0.80)	(0.62)	(0.93)	(0.75)

INSIGHTS AND RECOMMENDATIONS⁹

The national expenditure program is a potent fiscal tool in managing the direction of the economy toward optimal growth and macroeconomic stability (Premchand 1983; CPBO 2000; Campos 2002). Policymakers should therefore adhere to a sustainable fiscal policy and a clear set of strategic sectoral priorities...through... a prudent and efficient annual General Appropriations Act...that would contribute to addressing national development requirements judiciously (Perspectives from the Congress Secretariat 2007).

Macroeconomic performance in general and fiscal performance in particular are key to ensuring the attainment of national development requirements especially so amid downside risks and uncertainty that continue to buffet the Philippine economy. By the CPBD's reckoning, official deficit targets for both 2008 and 2009 would be breached considering the tall order posed by the government's GDP growth outlook and fiscal performance. Unless of course, the government drastically cuts down on expenditures, where demands for basic social services and infrastructure often end up casualties.

Hence, the economy must face up to the challenge of sustaining structural reforms—e.g., agricultural modernization, industrial restructuring and diversification, and continuing liberalization and innovation in the service sector—necessary to achieve a broad-based, labor-demanding, and sustainable growth path. To mitigate vulnerabilities and withstand uncertainties, it is imperative to build on the gains from strategic policy reforms to enhance productivity and competitiveness. Reforms should be complemented with an effective parallel transformation of the “social infrastructure”—e.g., institutional reforms—toward sustainable and inclusive long-term growth.

Given the binding fiscal constraint, sufficient policy support and targeted intervention for adversely-affected sectors should be undertaken by increasing the access of the masses to economic opportunities and social services. Tax collection should be made more responsive to higher economic growth—that is, enhancing tax buoyancy is an important consideration—to support well-targeted social expenditure programs. The national expenditure program should be geared toward high impact social development programs and projects in health, education, housing, as well as infrastructure development (such as roads, rural electrification, basic technology) and national economic competitiveness that in the end will not only impact on poverty alleviation but also enhance the investment climate, creating a virtuous cycle in development.

⁹ Drawn essentially from Manuel Aquino and Elsie Gutierrez, “A Call for Sustained Structural Reforms Amid Downside Risks: Philippine Economic Outlook and Challenges”, Congressional Planning and Budget Department, May 2008.

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