ANALYSIS OF THE FY 2010 PROPOSED NATIONAL BUDGET

The proposed National Budget for Fiscal Year (FY) 2010 amounting to P1.541 trillion was submitted to Congress with lofty promises of what the budget will do for economic growth from the President.

There is certainly a need to ensure that the proposed budget is able to address the dampening effect of the global financial crisis on the domestic economy. During the first six months of 2009, Gross Domestic Product (GDP) grew by 1.0 %, much slower than the 4.0 % growth posted during the same period last year. This anemic performance of the economy has already exacted its toll on the revenue program and pushed the government into higher deficits.

Revenue collections from January to July of 2009 amounted to P644.1 billion, a decrease by P27 billion from the same period last year. Tax revenues in particular decreased from P601.689 billion to P569.17 during the same periods. Falling revenues prompted several revisions of the programmed deficit which now stands at P250 billion. As of July, the deficit has reached P188.043 billion.

While the 1.0 % growth is well within the 0.8 % to 1.8 % official GDP growth target for the entire year, it is too modest to have a significant impact for 92 million Filipinos. Much more is needed to avert and reverse worsening problems of poverty, unemployment and the resulting deterioration in quality of life.

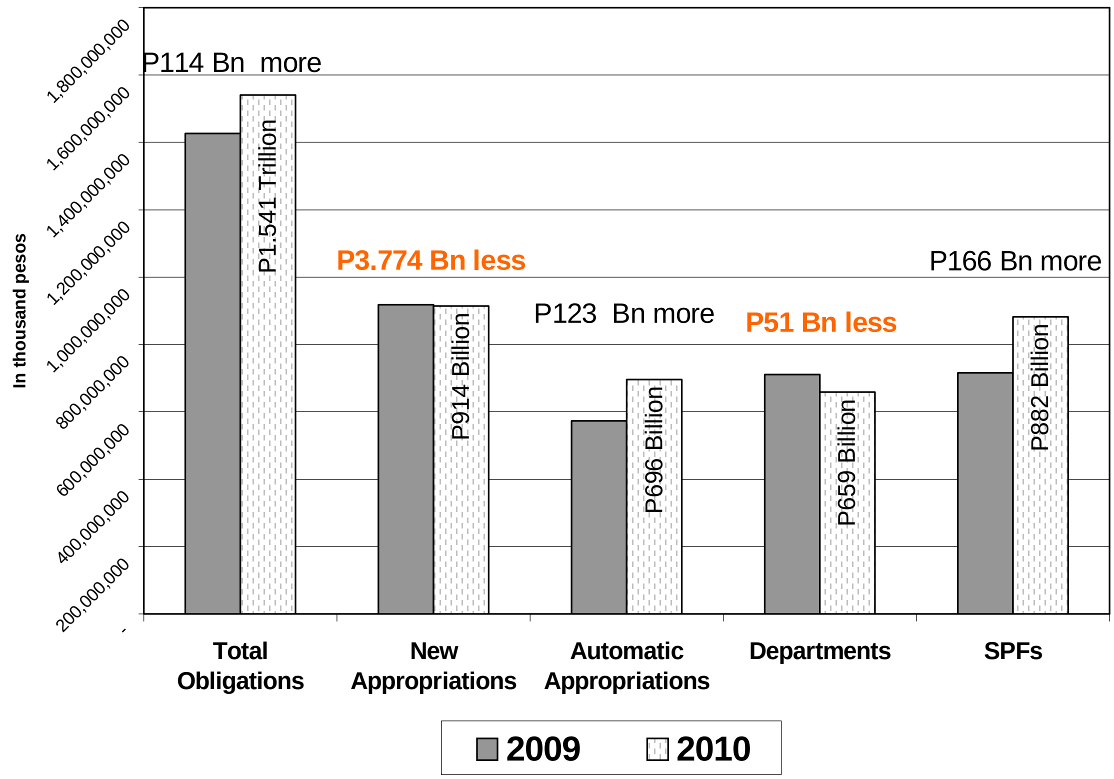
As the country continues to reel over the effect of the global economic slowdown on the domestic economy and social development, government is faced with a tight fiscal space within which to craft the budget. A balancing act is required between increasing expenditures without plunging into a fiscal crisis. On the one hand, there is pressure to increase spending to pump-prime the economy and for more support to economic and social services. On the other hand, revenue collection cannot support increases in public spending and as it stands, the government has already accumulated a high level of deficit which is expected to reach P250 billion by year-end.

A “maintenance” budget

The proposed 2010 expenditure program is a “maintenance” budget and not likely to “lay the groundwork for a full-scale revving up of the economy in the coming years” as proclaimed in the President’s Budget Message. The total amount of P1.54 trillion is 8% or P114 billion more than what was programmed for 2009.

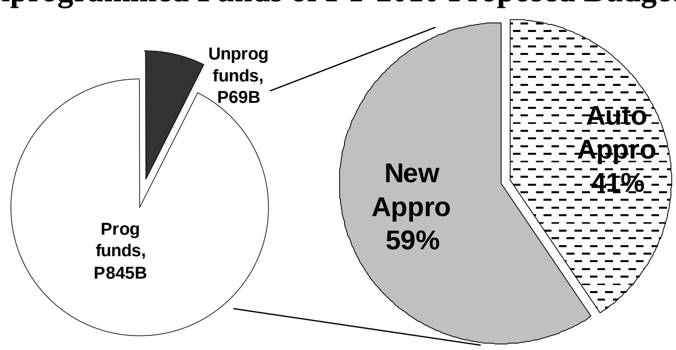
The increase, however, is not due to greater spending for productive activities and programs that will have the greatest impact on economic and social development. The proposed budget is actually reining in on new expenditures and capital outlays even as government consumption has been shown to be a major driver of growth for the first semester of 2009. Figure 1 shows a comparison between the total FY 2009 program and FY 2010 proposed budget and by major classifications.

Figure 1. Comparative Figures of FY 2009 program and FY 2010 proposed budget



Lower level of New Appropriations. In terms of type of appropriations, New Appropriations is set at P914 billion. This is P3.77 billion less than last year's amount, a development that is inconsistent with the avowed intent of "revving" up the economy. And since New Appropriations is the portion of the budget which is subject of Congressional approval, Congress effectively has fewer resources available to reallocate compared to last year.

Figure 2. New Appropriations, Programmed and Unprogrammed Funds of FY 2010 Proposed Budget



New Appropriations of P914 billion is inclusive of P69 billion Unprogrammed Funds. (Figure 2) Unprogrammed Funds are stand-by authorization that can only be funded if revenues exceed target or there are new sources of financing. Thus, P845 billion are for Programmed Funds which include those budget items, the funding source of which has already been identified.

The increase in the total obligations is due to the 21.47% increase in Automatic Appropriations. The P696 billion allocation represents a P123 billion increase from last year's amount. This is largely composed of debt service-interest payments and Internal Revenue Allotment (IRA), among others.

Decreasing share of Departments/Agencies. Figure 1 shows that the total budget for departments is P659 billion. This is P51 billion less than the previous year. Special Purpose Funds, on the other hand, increased by 23.22% to P881.879 billion. This has resulted to a smaller share of the Departments/Agencies over total budget, from 49.81% to 42.77%.

Lower Capital Outlays and Infrastructure Spending. Capital Outlays (CO) was reduced from P221 billion to P168 billion. The P52.8 billion cut reduced the share of CO to total budget from 15.5% to only 10.9%. The decrease in CO is primarily due to Public Infrastructures getting P117.9 billion which is P31 billion less than last year.

It should be noted however that increasing infrastructure spending per se, while having the potential to stimulate the economy, has its pitfalls. The quality and efficiency in the selection of projects and utilization of funds will determine the extent of its stimulating impact in the economy. Unfortunately, numerous cases of infrastructure projects being sabotaged as source of corruption have been reported. Leakage in infrastructure spending may not necessarily stimulate the economy if these are deposited in banks or spirited out of the country

Debt service-interest payment gets the biggest increase. Distribution of the proposed budget would reveal that social and economic services will get higher share of total budget at 31% and 23%, respectively, while Debt Service-Interest Payments will get 22%. In absolute terms however, interest payments will actually have the biggest increase—P88 billion more than last year compared to the P27.7 billion increase in social services. Economic services will actually be reduced by P25 billion. Since debt service is automatically appropriated, it will be protected from cuts next year should there be a need to reduce disbursements to contain deficit level. This means that actual spending for economic and social services can even be less than the proposed appropriation.

Table 1. Variance of FY 2009 and FY 2010 budget per sector

Sector	Increase/ (Decrease) *(In million pesos)*
Economic Services	(25,182)
Social Services	27,715
Defense	8,574
General Public Services	12,784
Net Lending	2,843
Interest Payments	88,262

Source of basic data: BESF FY 2010

Unstable fiscal position

The Budget Message claims that the proposed expenditure program "stands on solid ground: a strong economy and a strong fiscal position." It assumes an economic rebound for next year with GDP growing at 2.6% to 3.6% from the 0.8 % to 1.8 % target for this year. Official growth projections for 2010 are higher than those projected by the International Monetary Fund of 1.0%[1] and World Bank of 2.4%[2].

Optimistic revenue projections. The revenue target of P1.336 billion for FY 2010 is 7.79% higher than programmed revenues for 2009. Tax revenues are expected to grow by 10.45% while non-tax revenues will decline by 10.62%.

There is cause for concern that the targets will not be met considering that government has a poor record in attaining revenue targets in the past two years. In 2008, revenue shortfall is P33.32 billion while in 2009, estimated government revenues will be P154 billion less than original target. (Table 2)

The full implementation of four new laws[3] which will yield P50 billion to P55 billion in forgone revenues according to government estimates will also weigh down revenue collections for next year.

If no new revenue enhancing measures are put in place, the increase in revenue targets are expected to be propelled by economic growth targets which, in the last two years, have been proven to be unattainable.

Table 2. Growth and Revenue Performance vs. Targets, FY 2008-2009

Particulars	Amounts
FY 2008	
BESF GDP Growth Target (%)	6.1-6.8
Actual GDP Growth (%)	3.8
Revenue Target (in P Mn)	1,236,228
Actual Revenue (in P Mn)	1,202,905
Variance (in P Mn)	(33,323)
FY 2009	
BESF Growth Target (%)	6.1-7.1
Revised GDP Growth Target (%)	0.8-1.8
Revenue Target (in P Mn)	1,393,336
Revised Revenue Target (in P Mn)	1,239,152
Variance (in P Mn)	(154,184)
FY 2010	
BESF GDP Growth Target	2.6-3.6
Revenue Target (in P Mn)	1,335,629
Increase vs. 2009 (in P Mn)	96,477
% Increase vs. 2009	7.79%

Source of basic data: BESF FYs 2008, 2009 and 2010

[1] World Economic Outlook, April 2009
[2] Philippines Quarterly Update, July 2009
[3] RA 9337 to lower corporate income tax rate from 35% to 30 %; RA 9504 which raises higher personal exemption for individual taxpayers and exemption of minimum wage earners from income tax; RA 9505 provides tax incentives to investors in Personal Equity and Retirement Account (PERA); and, the National Tourism Policy Act of 2009 which provides tourism-related tax incentives.

Deficit treads on dangerous levels. The proposed expenditure program hinges on deficit spending of P233 billion, less than 2009 projected deficit of P250 billion. In the unlikely event that the revenue targets are not reached, the actual deficit could further increase.

Government borrows more than the requirements to finance the deficit. In 2010, to finance the P233-billion deficit, gross borrowings will reach P660.359 billion. Out of these borrowings, over P405 billion or about two-thirds will go to pay principal amortization (Table 3). These borrowings will further increase the country's outstanding debt stock which, as of May 2009, is P4.219 trillion.

Table 3. Financing Program FYs 2009 and 2010

Particulars	2009	2010	Variance
	(In million pesos)		
Gross borrowings	660,396	660,359	-37
Total Amortization	391,363	405,373	14,010
Net Financing	269,033	254,986	-14,047
Total Net Financing	250,000	233,448	-16,552

Source: BESF FY 2010

Combined debt service interest payments and principal amortization will increase by 6.20% to P746.175 billion for 2010. (Table 4)

Table 4. Debt Service FYs 2009 and 2010

Particulars	2009 *Programmed*	2010	% Increase
	(In million pesos)		
Total interest	311,237	340,812	9.50%
Total principal	391,363	405,363	3.58%
Total Debt Service	702,600	746,175	6.20%

Source: BESF FY 2010

Without significant improvement in revenue generation, exceeding the debt ceiling will siphon more public resources from productive expenditures to debt service for 2010 and beyond.

A high deficit spending program with unstable revenue sources is a dangerous combination that can spell a full-blown fiscal crisis.

Need for a viable fiscal program

A viable fiscal program is essential in ensuring economic recovery and providing social protection to the millions of poor Filipinos who have been adversely affected by the global recession. Unfortunately, the national budget, as proposed, is not tenable. Overly optimistic targets can only worsen government's fiscal position to the detriment of all.

Table 5. Revisions in the 2009 growth rates

Particular	GDP growth projection
May 2008 (2009 Budget Call)	6.5 to 7.3%
August 2008 (2009 BESF)	6.1 to 7.1%
February 2006 (NEDA)	3.7 to 4.4%
April 2009 (DBCC)	3.1 to 4.1%
June 2009 (DBCC)	0.8 to 1.8%

It would be prudent for Congress to consider the folly of approving an expenditure program based on unrealistic fiscal targets as exemplified in the FY 2009 budget. Growth target for 2009 has been revised several times (Table 5) because the government's economic managers have downplayed the impending effects of the global economic recession. From the original 6.5% to 7.3% GDP growth projection, the official estimate is now down to 0.8 % to 1.8 %. This also prompted the revision of the original revenue target of P1.393 trillion to only P1.239 trillion.

FY 2009 deficit has breached the original deficit ceiling as aggressive public spending is pursued in an effort to ostensibly stimulate the economy. Latest figures from the Bureau of the Treasury show that from January to August 2009, deficit has already reached P210 billion. Analysts fear that the deficit could reach P300 billion by year-end.

It should be noted however that the efficacy of the stimulus package remains suspect. From January to June, total disbursements reported by the Treasury amounted to P699.115 billion. For the same period, deficit reached P153.413 billion but GDP grew by a measly one percent.

Table 6. Revisions in the deficit targets for 2009 as of June 2009

	Deficit Target
May 2008[1]	0
August 2008[2]	P40 billion
November 2008[3]	P102 billion
February 2009[4]	P160 billion
March 2009[5]	P177.2 billion
May 2009[6]	P199.2 billion
June 2009[7]	P250 billion

Sources:
1 Budget Call FY 2009
2 Budget of Expenditures and Sources of Financing FY 2009
3 "Gov't jacks up borrowing ceiling" Philippine Daily Inquirer, November 14, 2008 http://archive.inquirer.net/view.php?db=1&story_id=172059
4 "Budget deficit set at P160b" Manila Standard Today, February 21, 2009 http://www.dbm.gov.ph/index.php?pid=3&nid=1592
5 "P177-B cap on budget deficit in 2009 stays" Manila Bulletin, March 26, 2009
6 Budget Call FY 2010

Implications

It is imperative for the Legislature to engage as much as it can to address the pitfalls in the proposed 2010 budget.

While the extent of Congressional intervention in the proposed budget is heavily compromised by the fact that New Appropriations is only 59% of the budget, it can still make significant improvement to ensure that an expenditure program which is viable and responsive to current economic conditions and social development needs of the country is adopted.

The fiscal program should be vigorously scrutinized to assess the viability of revenue targets and financing requirements. Determination of realistic revenue targets is imperative to determine the appropriate level of government spending. Overestimation of revenue targets and underestimation of deficit and expenditure ceilings can lead to the worsening of the fiscal position.

Budget items without clear, identifiable and useful purpose should be eliminated to reduce inefficiency, redundancy, and highly discretionary lump-sum funds which are prone to abuse and mismanagement. Greater scrutiny of Special Purpose Funds should be done as it constitutes 57% of the proposed budget with particular emphasis on lump-sum appropriations that are prone to frivolous spending. These items are particularly significant with the coming elections as discretionary funds may be used for political considerations. The Alternative Budget Initiative (ABI) has identified such items and is presented in the succeeding section.

Infrastructure spending should be thoroughly reviewed and mechanisms for greater accountability and transparency in utilization of appropriated funds should be ensured through inclusion of appropriate special provisions on reporting and monitoring, etc.

Adequate financing for social protection should be prioritized. ABI urges Congress to pursue a public expenditure program that promotes investment in inclusive and sustainable development. The United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) provided recommendations in its *Economic and Social Survey of Asia and the Pacific 2009* titled *"Addressing the Triple Threats to Development"* which was published in March 2009. The report underscored the need to ensure that expenditures should have the highest social returns, to expand social protection systems. It also emphasized that key to the quality of future economic growth and development is spending, not only for social infrastructure, but also on improving delivery of education and health systems.

The UNESCAP report also pointed out that if the downturn is prolonged, longer-lasting public spending (ex. social infrastructure and services) may be more valuable than fast-acting expenditures (ex. tax cuts and transfers). It also stressed the need to invest in environmentally sustainable development and innovation.

There is a need to strengthen the exercise of oversight function of the legislature to curtail wastage in government spending. This can be done through the Joint Legislative Oversight Committee on the Budget, the creation of which was approved by the Bi-Cameral Conference Committee on the 2009 Budget when it convened in January 2009.

Congress can accelerate the initiatives towards budget reform which were already started early this year with the public hearing conducted by the Senate Committee on Finance on the impoundment control bills and the filing of similar and related bills at the House of Representatives.