

GARY JOINS AMAZING RACE (PHILIPPINES' FISCAL PROGRAM)
PDF Presentation
March 26, 2008

SLIDE 1

- Good morning. Thank you for joining us again in this annual get-together with our development partners.
Our discussions this year focus on “Accelerating Inclusive Growth and Deepening Fiscal Stability.”
Managed well, fiscal policy can be the lever that supports higher growth and rapid poverty reduction.
- What I would like to do is to share some reflections on policy challenges on the fiscal sector and highlight key programs being taken and may deserve your support.

SLIDE 2

SLIDE 3

2007 Fiscal Performance

- The journey the Arroyo administration has gone through on the fiscal front with the support of

legislators, development partners, investors, and the general public reminds me of this popular TV show, “The Amazing Race.” In the show, you have teams of twos traveling across the globe to different destinations to be the first team to reach the ‘Pit Stop’ of every leg, and ultimately be the first to reach the last destination and win the grand prize.

- Similar to the experience of the teams, we have had to overcome roadblocks, take detours, carefully analyze clues, and calibrate our actions to prudently manage public finances and fast forward to the next target.

SLIDE 4

- More importantly, we work as a Team. As a result, in 2007, our fiscal performance was better than programmed.

SLIDE 5

- The NG posted a deficit of P12.4 billion or 0.2% of GDP compared to the 2007 program of P63 billion or 0.9% of GDP. This is the lowest deficit on record since 1986, and considerably better than the P210.7-billion deficit in 2002, which represented 5.3% of GDP.
- Moreover, in 2007, we surpassed our total revenue program by P17.8 billion and generated savings in interest payments amounting to P35.5 billion.
- However, the ride towards fiscal stability has had rough patches along the way.
- The combined collections by the Bureau of Customs and the Bureau of Internal Revenue only improved by 8.5%. Following a weak collection performance, tax effort declined to 14% from 14.3% in 2006.

- To fund expenditures essential for growth, we learned to be more Resourceful. Non-tax revenues including privatization provided not only additional funds for infrastructure and social spending but equally important, placed government assets in private hands to harness their efficiencies.
- With a much reduced NG deficit, we cut down on our borrowings. As a result, outstanding debt declined to P3.7 trillion or 55.8% of GDP from P3.9 trillion or 63.8% of GDP a year before.
- At the same time, with a lower NG deficit and better financial performance of our GOCCs, GFIs and LGUs, there has been a marked turnaround in the consolidated public sector, which posted a P97.0 billion surplus or 1.5% of GDP versus program deficit of P80.8 billion or (1.2% of GDP).

SLIDE 6

Getting ready for bigger challenges.

2008 Fiscal Program.... Generating revenues to fully finance expenditure program

- The primary burden of financing the 2008 budget will fall on the Bureau of Internal Revenue and the Bureau of Customs, which are expected to raise about P1.1 trillion in tax revenues through better tax administration and efficiency. The BIR's share of the target this year is P845 billion or 10.3% higher than last year's target of P765 billion, while BOC is tasked to collect P254 billion or 11.5% higher than its P228 billion goal last year.
- About P127.3 billion or 10.3% of total revenues will come from non-tax sources, including P30 billion from our privatization initiatives.

SLIDE 8

- The 2008 expenditure program of P1.2 trillion envisages a higher growth trajectory with a notable rise in spending on infrastructure and social services.

SLIDE 9

Where we are: Jan 2008 tax collections better than last year

- Better collection performance in January is the result of the next Virtue we learned Perseverance. Based on preliminary numbers, in January, the National Government posted a deficit of P13.9 billion, 53.1% lower than January last year.
- Total revenues reached P87.0 billion, 19.7% higher than the previous year. Combined collection of the BIR and BOC amounted to P71.4 billion, representing 82% of total revenues.

- The BIR's collections rose by 14.0% to P56.7 billion from P49.7 billion, while that of the BOC improved by 24.7% to P14.7 billion from P11.8 billion.
- Non-tax revenues reached P14.8 billion with the contribution from privatization amounting to P6.6 billion from the sale of Meralco shares.
- Total expenditures amounted to P100.9 billion, 1.4% less than the previous year as interest payments declined by 7.0% due to the peso's strengthening.

SLIDE 12

- Downside risks, including the emerging U.S. slowdown and rising food and energy prices, threaten economic sustainability.

SLIDE 13

- Difficult times lie ahead and the Virtue of Focus is most relevant, especially on the following key challenges this year:

Improving collection efficiency

Increasing infrastructure and social sector spending

Enhancing consolidated public sector viability; and

Further reducing the debt burden.

SLIDE 14

In order to help our revenue agencies improve tax collection on a sustainable basis to provide the resources for priority spending, our efforts are geared on the following:

- We will monitor the two Bureaus closely to see to it that they intensify the implementation of their action plans to improve collection efficiency and reduce tax evasion. These action plans began to produce results

late last year. In the case of the BIR, registered taxpayers increased by about 18%, largely attributing to improved business intelligence (including the use of third party sources of information).

- Similarly, the adoption of technology based measures (including scanners) allowed the BOC to detect misdeclaration and undervaluation of imports.
- With a more focused approach, we hope to see this year the successful conviction of cases under the Run After Tax Evaders and Run After The Smugglers programs.
- We are also implementing new initiatives this year to curb smuggling and tax evasion, including fuel marking in Subic, Clark and Batangas by next month. The BIR is likewise evaluating proposal on the use of technology

solutions (fuse on stamp and systems) to protect revenues from sin products.

- Upon instructions of the President, we are replicating the Procurement Transparency Group and establishing a joint government-civil society body to monitor collection efforts, gather lifestyle and corruption information, and follow-up major evasion and smuggling cases.
- We will continue to work closely with Congress on legislative measures particularly to compensate for the reduction in corporate income tax from 35% to 30% next year which will result in a P15 billion revenue loss.
 - These measures include the Rationalization of Fiscal Incentives, seeking the Exemption of the BIR and BOC from the Salary Standardization Law and Simplifying the Structure of Sin Taxes.

SLIDE 15

- Improvements in our fiscal position provide additional headroom for investments in vital infrastructure. The 2008 expenditure program of P1.2 trillion budget provides for an increase in capital outlays to 2.7% of GDP from last year's target of 2.5% of GDP. Our goal in the medium term is to raise capital spending to 4.6% or 5% of GDP by 2010.

SLIDE 16

- We are keeping a close watch on our liability portfolio. Our target is to trim debt to GDP ratio to 51.7% this year from 55.7% last year and for interest payments as a percent of total revenues to decline to 22.8% from 23.5%.

SLIDE 17

- To address the concerns of our overseas Filipinos and exporters over the peso's appreciation, we have programmed net financing requirements to drop by 78% to P17.7 billion this year from the program of P82.5 billion last year. Moreover, we will continue to favor domestic borrowings over external financing.
- We, therefore, welcome our donors' initiatives to lend in the local currency and your participation will surely contribute dynamism and confidence to the domestic capital market.
- Together with the Bangko Sentral and the Capital Markets Development Council, we continue to advocate reforms aimed at deepening the local development market to provide alternative investment vehicles for

savers and intermediate funds especially for our “Ready to Go” infrastructure projects.

SLIDE 17

- Finally, we remain vigilant in our oversight over the rest of the public sector including our GOCCs, GFIs, SSIs and LGUs to ensure their sustained financial viability while at the same time complementing the National Government resources in addressing infrastructure bottlenecks and improving access to better social services.

SLIDE 18

- As Finance Secretary of the Philippines’ fiscal version of “The Amazing Race”, our journey so far has also tested me in many ways and I have learned to further appreciate the value of a few more virtues.

- One, we have to have the courage to make difficult yet painful decisions and to push for unpopular but necessary reforms in order to raise the resources necessary for our journey to achieve greater success.
- Two, it is vital to build stamina and endurance as this is a marathon, not a sprint. Engagements can last longer and be more stressful than expected.
- Three, we must be calm and patient, and not lose our cool even when our environment becomes volatile.
- It has been said that: "The race is not always to the swift, but those who keep on running." The Philippines has had an amazing fiscal race so far and we have advanced through many legs, but we still need to accelerate the momentum and push further on with more creative but practical initiatives and reforms.
- We look forward to opportunities like these to share ideas and help us shape appropriate responses to

challenging events and remain on track with our goals. With your continued support, we hope to steer the economy in overcoming current uncertainties and continue unlocking the potential for higher and sustained growth that will translate into a better future for everyone.

- Thank you.