

# Sustaining Fiscal Reforms

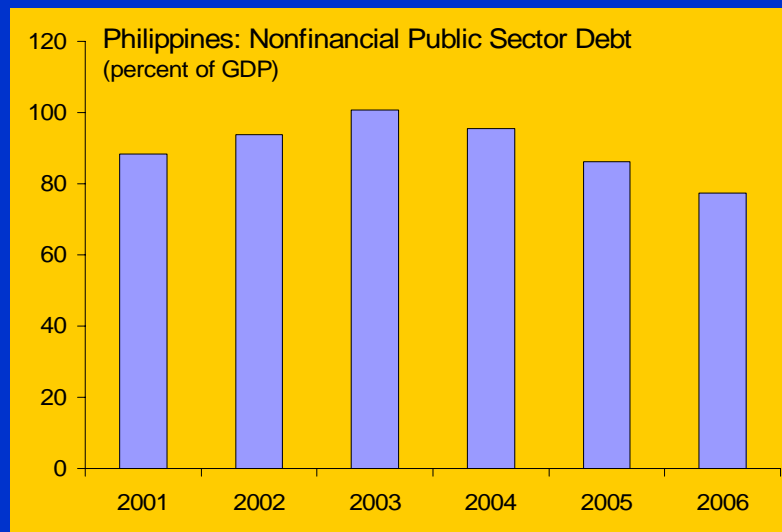
Reza Baqir  
IMF Resident Representative, Manila

19 February 2007



# Backdrop

- Impressive fiscal reforms were successfully executed in an environment of robust growth and low inflation
- In 2 years, a quarter of public debt (in percent of GDP) has been eliminated and for the first time in a decade tax effort has risen.
- Sentiment has noticeably strengthened and markets have rewarded the Philippines for reforms.

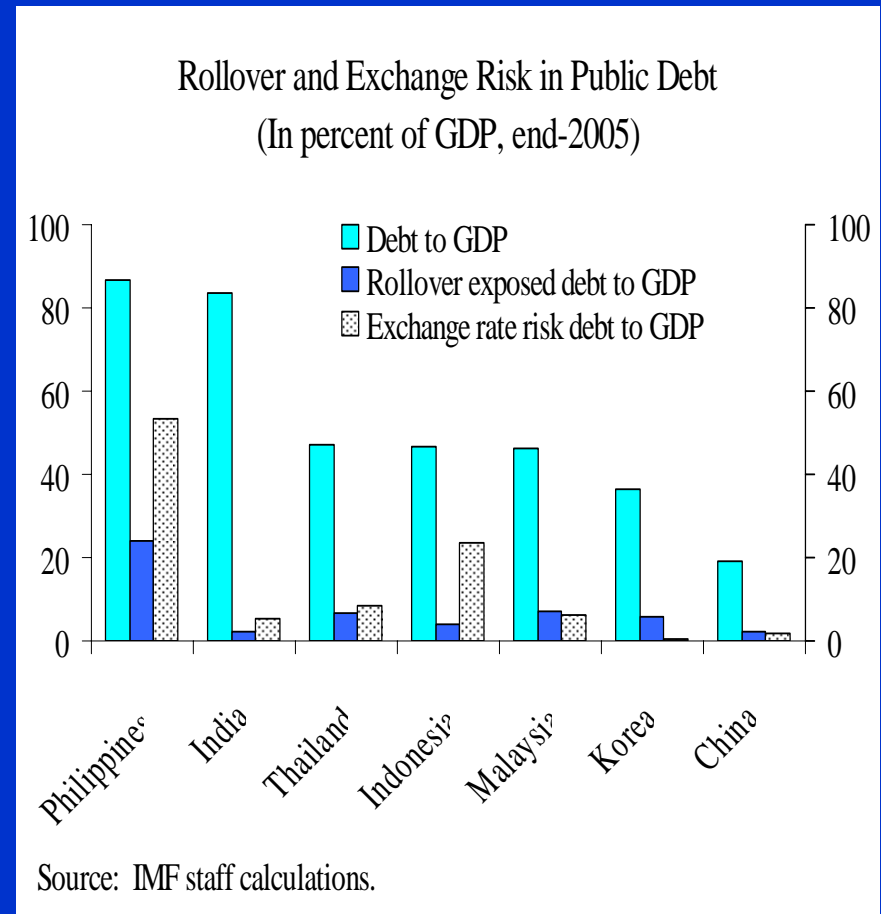


2006: Expectations and Outturns		
	Year-ago projection 1/	Actual outturn
GDP Growth (%)	4.7	5.4
Inflation (%)	6.8	6.2
Export growth (%)	5.4	14

1/ Consensus forecasts made in January 2006

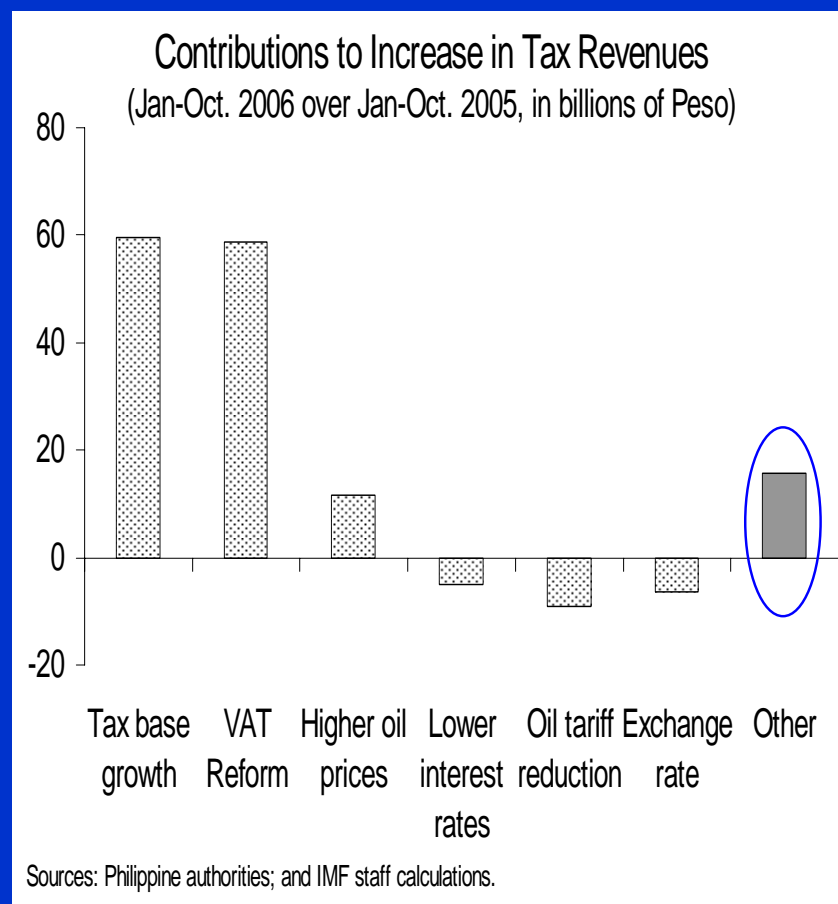
# Challenges ahead

- ❑ Critical to sustain reforms:
  - Avoid abrupt end to current cycle of good news. In the past good news has often been followed by shocks
  - Debt remains high
  - External risks
- ❑ 4 areas to sustain reforms:
  - Raise revenue effort further
  - Increase priority spending
  - Grow investments for higher growth & poverty reduction
  - Further strengthen financial sector



# Raising revenue effort

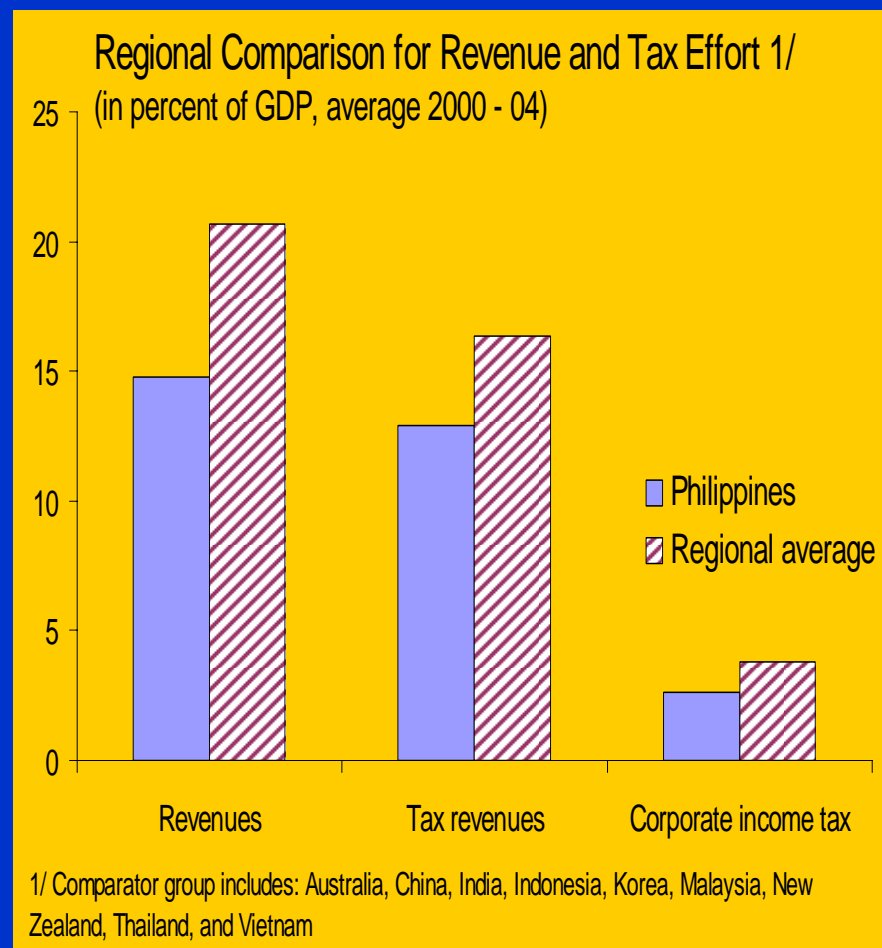
- Balancing the budget, while meeting medium term expenditure needs, will require additional tax effort of about **2½ percent of GDP**
- The improved revenue performance of 2006 gives good momentum going into 2007.



# Options for raising revenues

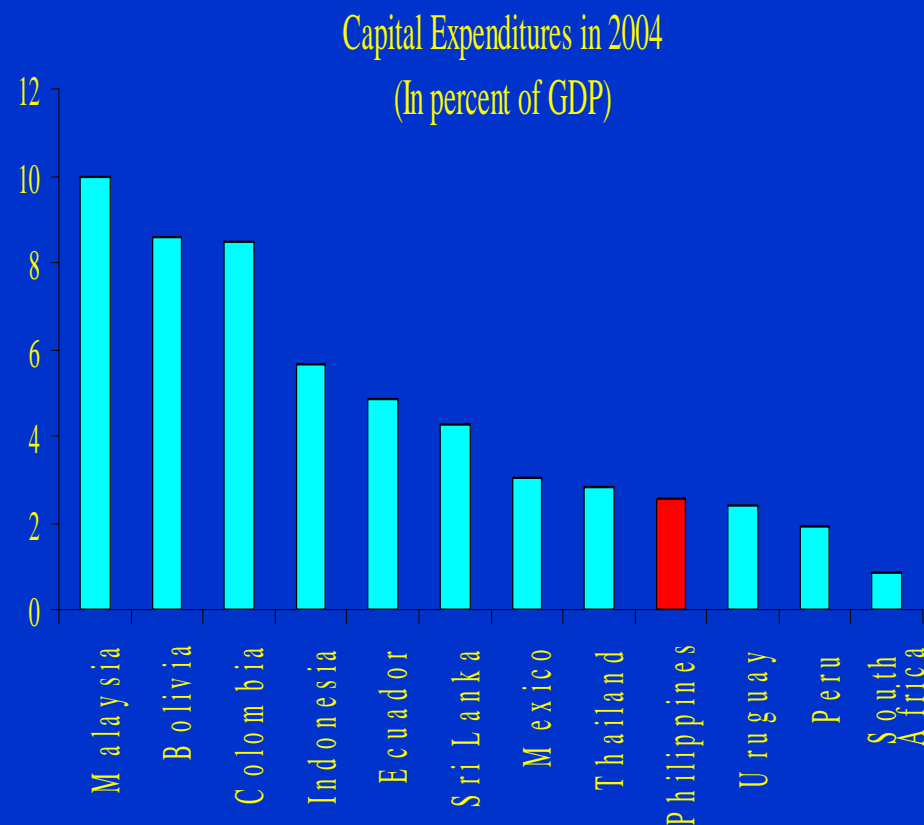
Two parallel policy thrusts:

- Tax administration reform. But revenue yield will be realized in the medium term
- Tax policy measures for the 2008 budget:
  - Scale back redundant fiscal incentives. Corporate income tax remains low compared to region
  - Raise and index excises to inflation
- **Current economic gains are a direct consequence of tax policy reform → Further tax policy reform will bring further gains.**



# Increasing priority spending

- Higher revenues → greater room for exp.
- Challenge to balance with absorptive capacity
- Further improve financial management
  - Prioritization
  - Evaluation
  - Management



# Thank you

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REZA BAQIR  
IMF Office Manila  
(02) 536 0785, 400 4985

