



The Government of the  
Philippine Republic



# **WORKING GROUP ON ECONOMIC AND FISCAL REFORMS**

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# OUTLINE OF PRESENTATION

- I. Overview of the Fiscal Sector
  - a. Performance
  - b. Medium-term Outlook
- II. Working Group Issues and Status



# NG Fiscal Performance

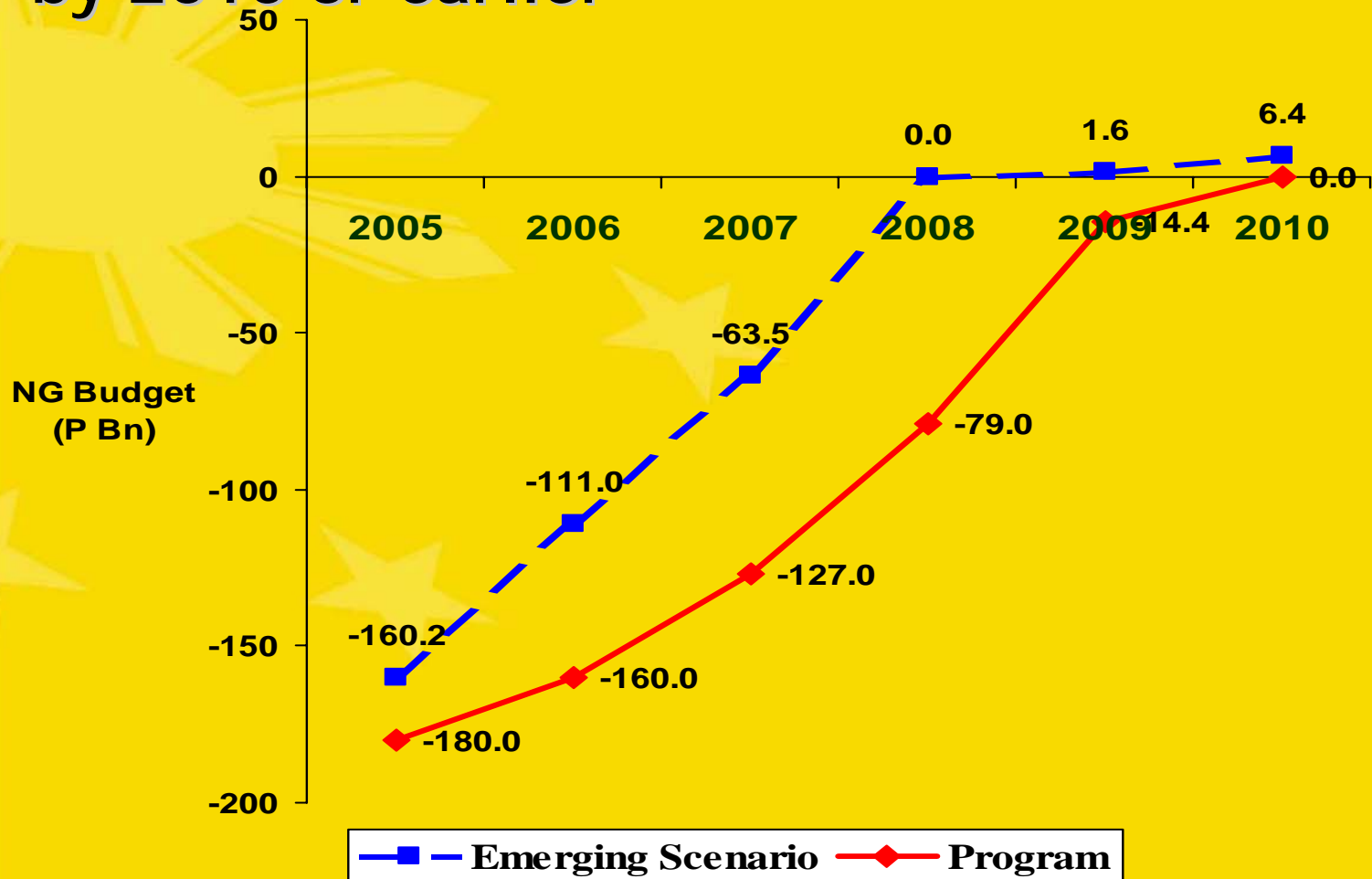
January to May 2004 vs 2005 (Actual)

(In Billion Pesos)

	Jan-May 2004 Actual	Jan-May 2005 Program	Jan-May 2005 Actual	Variance 2005 vs Program	Growth Rate %
<b>Revenues</b>	<b>288.8</b>	<b>321.0</b>	<b>322.3</b>	<b>1.3</b>	<b>11.6</b>
Tax Revenues	246.8	286.4	280.7	(5.7)	13.7
BIR	193.3	223.9	221.4	(2.5)	14.6
BOC	50.1	59.2	55.8	(3.4)	11.3
Non-Tax Revenues	42.0	34.6	41.7	7.0	-0.8
BTr Income	24.8	17.0	28.6	11.6	15.1
<b>Expenditures</b>	<b>366.2</b>	<b>407.7</b>	<b>390.1</b>	<b>(17.6)</b>	<b>6.5</b>
<b>Surplus/(Deficit)</b>	<b>(77.4)</b>	<b>(86.7)</b>	<b>(67.8)</b>	<b>18.9</b>	<b>-12.4</b>

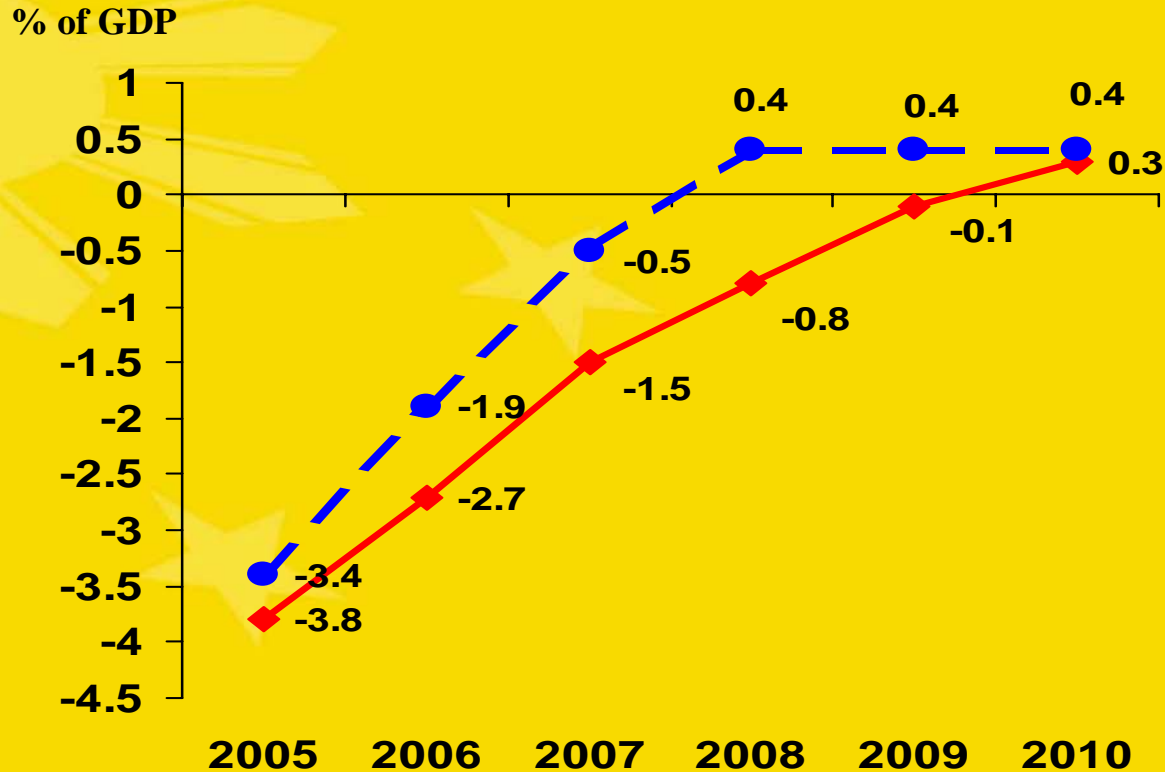


# E-VAT will ensure balanced budget program by 2010 or earlier





# E-VAT and NPC privatization will lead to a Consolidated Public Sector Surplus in 2008



◆ Program    ● Emerging Scenario



# National Government Debt will drop to 50% of GDP under emerging scenario

*(Preliminary)*

In Billion Pesos

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
NG Debt (baseline)	4,353	4,679	5,010	5,243	5,457	5,707
% to GDP	81.7	80.3	78.6	76.0	73.3	71.2
NG Debt (emerging)	4,224	4,385	4,458	4,436	4,460	4,516
% to GDP	79.2	73.1	67.4	60.7	55.1	50.4
Debt Reduction/Capital Outlay	100-0	70-30	65-35	60-40	55-45	50-50



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## Objective:

- Balancing the budget and reducing debt without sacrificing growth



## Agreements

## Status

1. Frontload fiscal adjustments but stick with macroeconomic targets

a) Complete tax reforms

- DBCC agreed that proceeds from VAT reform will be used primarily for debt reduction (100%-0% in 2005 down to 50-50% in 2010)
- VAT reform law with P83.9 billion annual yield passed and signed into law on May 24, 2005
- Legislative tax reform agenda being reviewed for prioritization/strategizing



## Agreements

## Status

b) Bring nonfinancial public sector deficit down firmly in 2005-2006

c) Improve tax administration  
- Set up a clear medium-plan

- Ongoing - CPSD to drop to 3.4% of GDP in 2005 and 1.9% in 2006 based on emerging scenario

- IRR for Lateral Attrition Law being finalized to include performance benchmarks



## Agreements

- Set up clear benchmarks and steps (e.g. audits)

## Status

- RATE, RATS and RIPS being implemented
  - RATE - 23 cases filed
  - RATS - 1 case filed
  - RIPS - 18 cases filed:  
(BIR-12; BOC-5; BLGF-1)
- BIR exceeded its collection target in April/ May



## Agreements

## Status

- d) Strengthen governance
  - Penalty for tax evaders and errant tax collectors
  - Increase transparency and accountability
- e) Aggressive privatization

- Strengthen RIPS/Anti-Smuggling Task Force
- PSALM assets being privatized/P24B program in 2005
- PCGG assets being prepared for privatization
- Privatization of IS/PNB ongoing



## Agreements

## Status

### 2. Complement fiscal reforms with other structural reforms

a) Power sector reforms  
(privatization, regulatory reforms)

- Privatization of NAPOCOR/Transco
- Regulatory reforms

● Ongoing

● Ongoing



## Agreements

## Status

### b) Financial sector reforms

- Protection of bank supervisors
- Reduce distressed assets in banks
- Promote capital market development thru regulatory reforms and market infrastructure

- Bill drafted/BSP to push passage of bill
- Ongoing; SVP Law in effect
- Bill extending SPV Law filed
- Securitization law passed
- DOF/CDMC to review legislative agenda
- Fixed income exchange set up by private sector



## Agreements

## Status

c) Contain contingent and other liabilities

- Pension fund reform
  
- Control over issuance of guarantees

- Preliminary study on SSS and GSIS started
- PRIC study revived/ discussed in CMDC
  
- More stringent ICC guidelines issued
- DOF Debt and Risk Management Office being established
- Stricter rules on issuance of guarantees included in FRB



## Agreements

## Status

- Stronger oversight over GOCCs

- Tighter fiscal rules under FRB
- Performance standards to be adopted

**3. Go for a Fiscal Responsibility Program if CPSD is reduced to 2.5% of GDP**

- Emerging CPSD will fall below 2.5% in 2006



## Agreements

## Status

### 4. Increase efficiency in government spending

- Reestablish credibility by undertaking a small number of visible, inexpensive and far-reaching reforms in the social sectors
- Develop a professional merit-based civil service
- Implement procurement reforms

- Performance monitoring being established
- E.O 366
- Ongoing



## Agreements

## Status

<ul style="list-style-type: none"><li>- Improve organizational structure of service agencies</li></ul>	<ul style="list-style-type: none"><li>● E.O. 366</li></ul>
<ul style="list-style-type: none"><li>- Develop LGU capabilities</li></ul>	<ul style="list-style-type: none"><li>● Under implementation</li></ul>
<ul style="list-style-type: none"><li>- Strengthen intergovernmental transfer system to improve service delivery at the local level</li></ul>	<ul style="list-style-type: none"><li>● Under implementation</li></ul>



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## Agreements

## Status

### 5. Communicate benefits of the reform agenda

- Communicate benefits of  
tax administration  
improvements

- Under implementation