



Macroeconomic Theory and Policy

Fiscal Deficit as a Critical Constraint to Economic Growth and Development



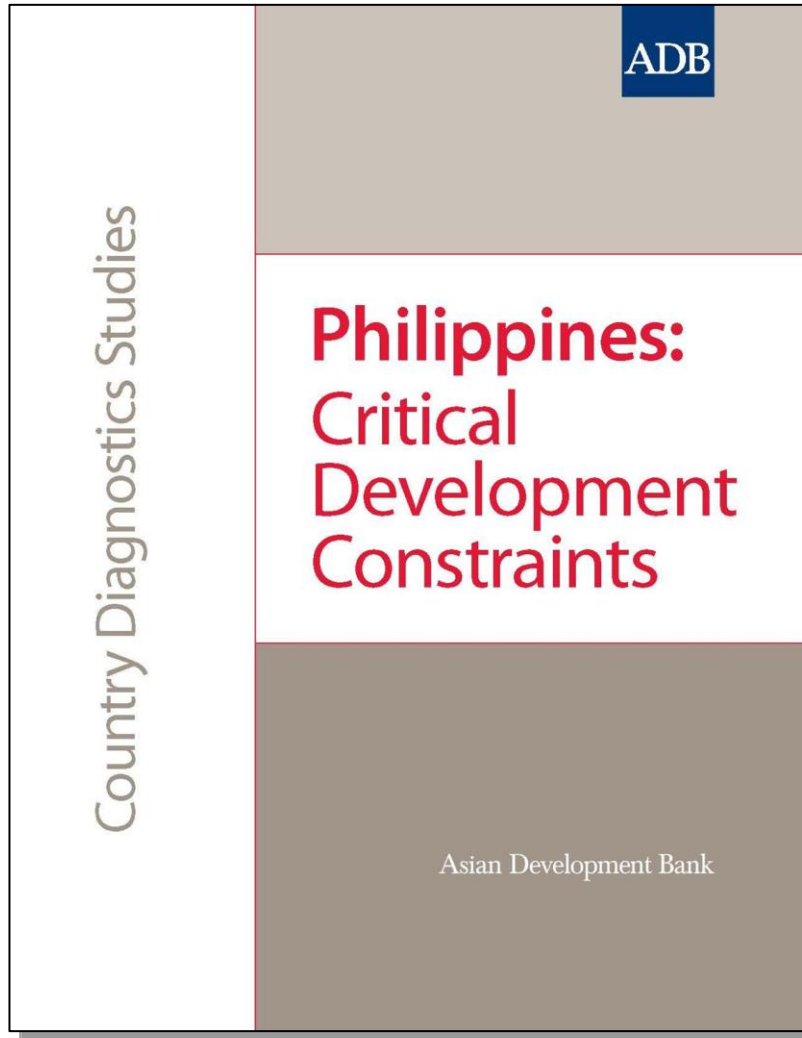
Aries Eroles



Guia Mae Abaja



- 1 Is fiscal deficit a factor of equal, less or more significance in economic growth now than baseline period (2007)?
- 2 What are the **events** / **programs** / **policies** led to that change, if any?





Persistent fiscal deficits have been a key source of the **macroeconomic instabilities** and remained **a critical constraint to growth**.

- ADB, 2007




Observations

- The Philippines recorded fiscal deficits for most of the last 2.5 decades [1957–2007] 
- Weak revenue generation, in particular, tax collection
- Decline in the tax effort in the post-Asian crisis years of 1999–2005 
- Comprehensive Tax Reform Law of 1997... allowed significant exemptions from big corporations and high-income individuals
- Serious weakness in tax administration



Observations

- During 2003–2006... lowered the fiscal deficits, but a very high cost 
- Risks: interest rates, currency risks ; Public debt: 64% of GDP (2006); interest payment reached 5.5% of GDP and 31.1% of the budget in the same year.
- [Fiscal conditions] Constraining the ability to finance key infrastructure and services



Macroeconomic Trends



Revenues



Debt



Expenditures



Fiscal Balance

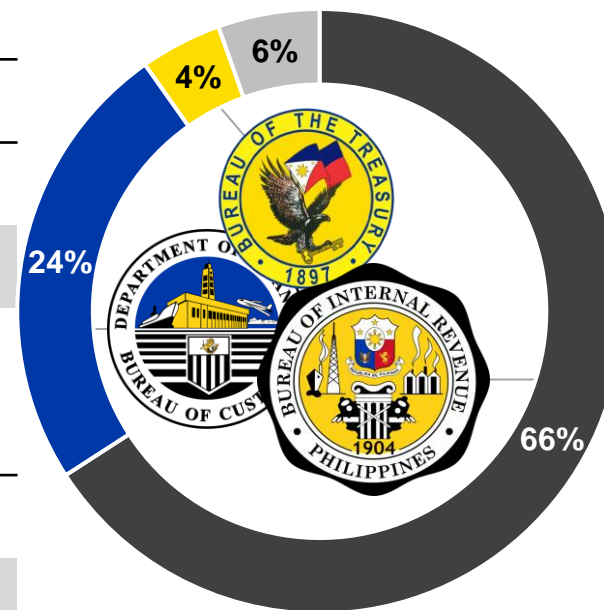


Revenues Expenditures Debt Fiscal Balance

National Government Revenues, 2022

	In million PHP	% of GDP
Government Revenues	3, 545, 505	17.8
Tax Revenues	3, 220, 315	16.2
BIR	2, 335, 674	11.7
BOC	862, 420	4.3
Others - Tax	22, 221	0.11
Non-tax revenues	324, 082	1.6
BTr	154, 764	0.8
Others - Non-tax	169, 318	0.9
Grants	1, 108	0.006

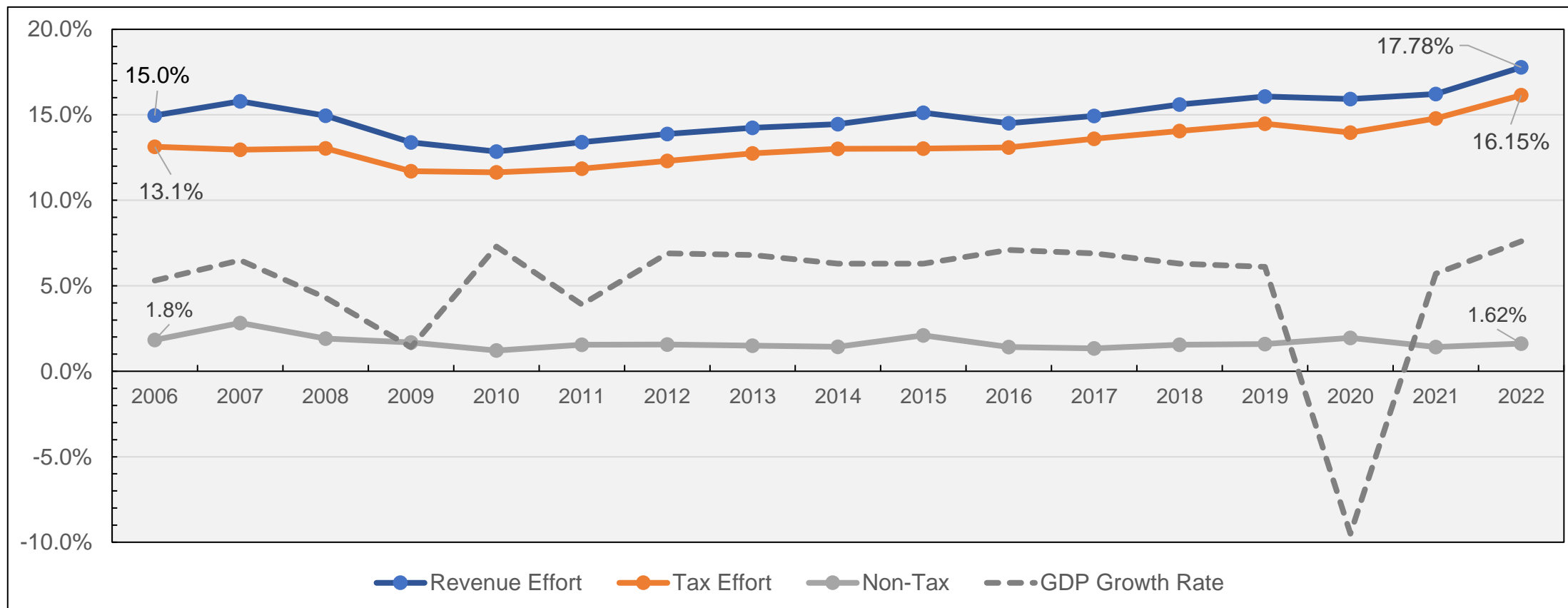
Source: DoF





Revenues Expenditures Debt Fiscal Balance

National Government Revenues, 2006–2022 (% of GDP)



Sources: DoF and BoTr

Revenue, comparative

Debt Servicing Chart



Revenues Expenditures Debt Fiscal Balance

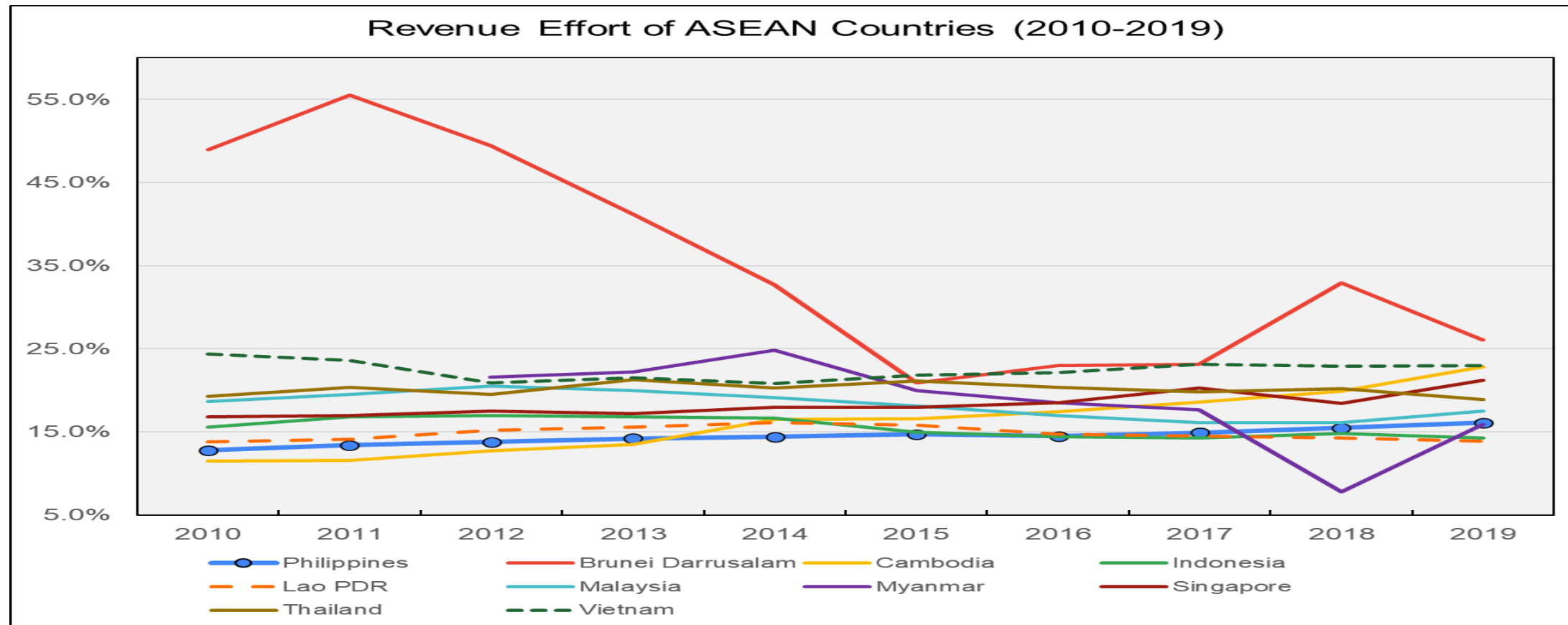
Comparative with ASEAN neighbors

Sources: NTRC (2021)



Revenues Expenditures Debt Fiscal Balance

Comparative with ASEAN neighbors



Sources: NTRC (2021)

Non-tax revenue



Revenues Expenditures Debt Fiscal Balance

Direct and Indirect Taxes, 2022

Direct Taxes

	In Million PHP	% of Total
Direct Taxes	1, 258, 417	39.1
Income Tax	1, 237, 372	38.4
Other Direct Taxes	20, 288	0.6

Indirect Taxes

Indirect Taxes	1, 961, 898	60.9
Excise Tax	312, 224	9.7
Sales, License & Business Taxes/VAT	581, 882	18.1
Import Duties & Taxes	862, 420	26.8
Documentary, Science & Stamp Taxes	204, 197	6.3
Forest Charges	234	0.01
Miscellaneous Taxes	942	0.03

Total Taxes

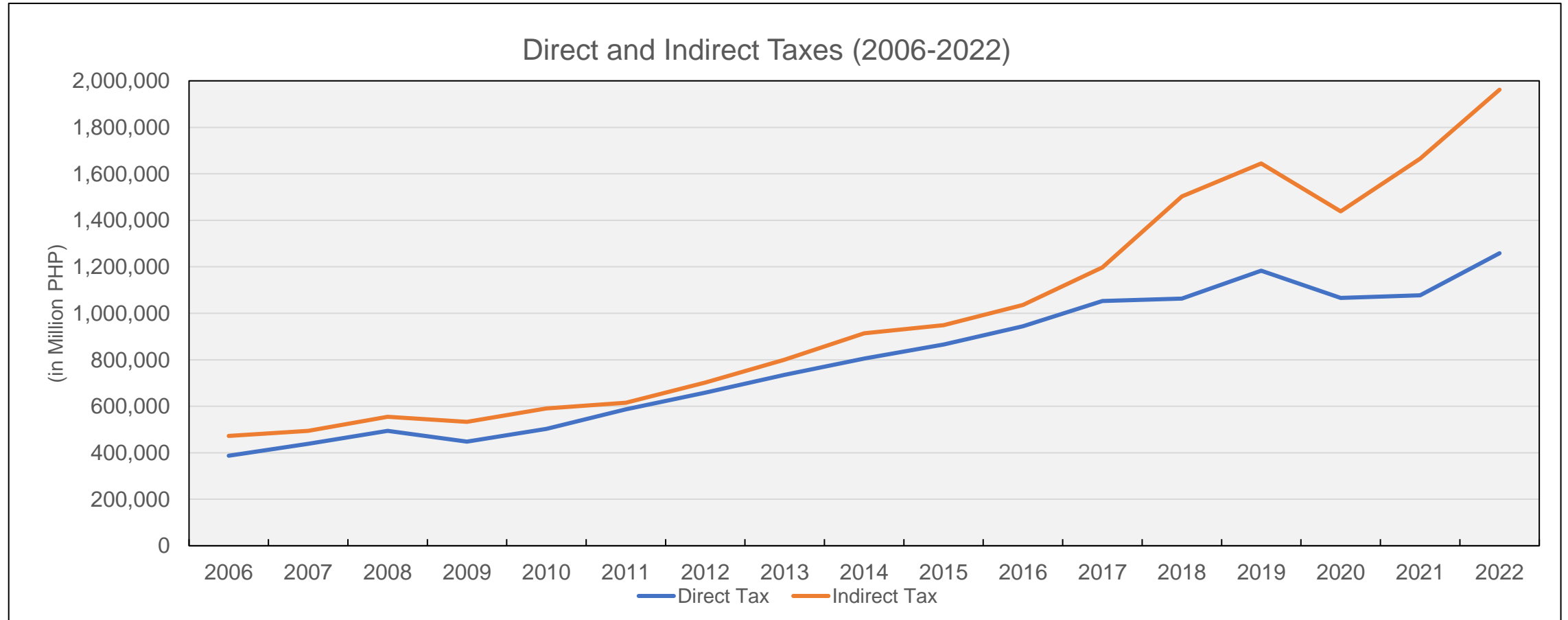
Total Taxes	3, 220, 315	
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Source: DBM



Revenues Expenditures Debt Fiscal Balance

Direct and Indirect Taxes, 2006–2022



Source: DoF



Revenues **Expenditures** Debt

National Government Expenditures,
2022

	Million PHP	% of GDP
Expenditures	5,159,640	25.9
Allotment to LGUs	1,103,284	5.5
Interest Payments	502,858	2.5
Tax Expenditures	39,784	0.2
Subsidy	200,410	1.0
Equity	11,158	0.06
Net Lending	27,205	0.14
NG Disbursements	3,274,941	16.4

Source: DoF/BTr (left) and DBM (right)

Expenditures

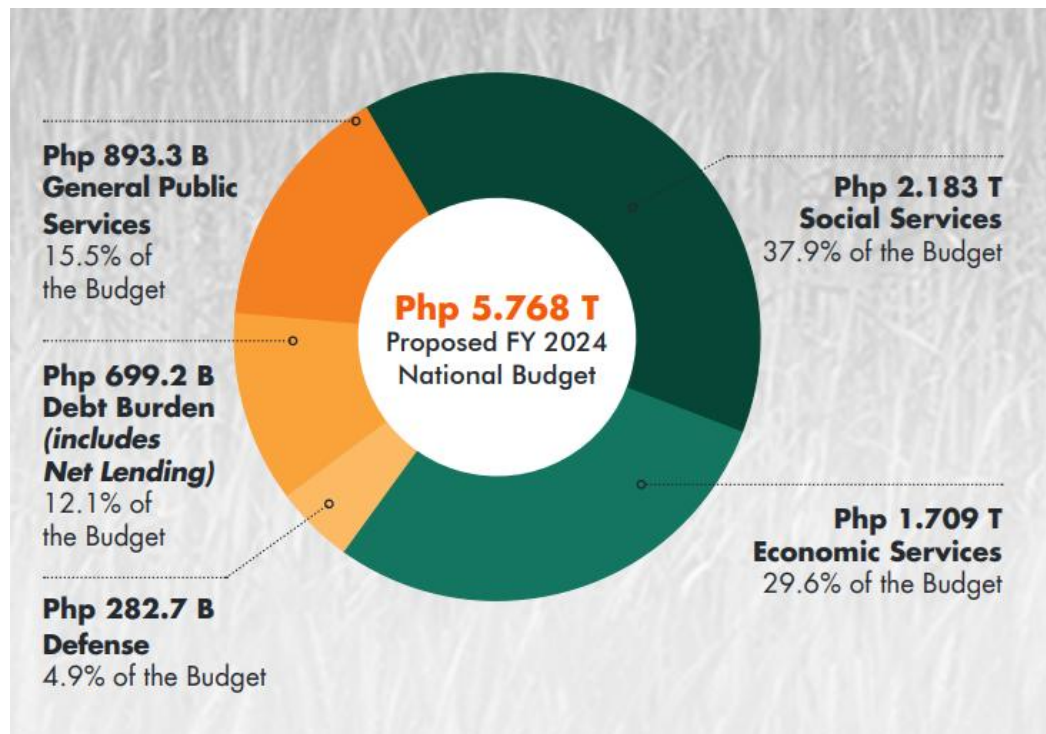
Billion PHP

Expenditures	4,227.5
Current Operating Exp.	3,831.80
Personnel Services	1,380.60
MOOE	879.10
Subsidy	200.40
Allotment to LGUs	829.00
IP	502.90
TEF	39.80
Capital Outlays	1,300.60
Infra and Other CO	1,015.20
Equity	11.20
Capital Transfers to LGUs	225.40
Net Lending	27.20



Revenues **Expenditures** Debt Fiscal Balance

2024 Budget Proposal



- 9.5% year-on-year growth
- 21.7% GDP

Education (DepEd, SUCs, CHED, TESDA)^{1/}
Php 924.7 B
2023 GAA: Php 895.2 B

Public Works (DPWH)
Php 822.2 B
2023 GAA: Php 894.2 B

Source: Briefer on the 2024 Proposed National Budget (DBM)



Revenues **Expenditures** Debt Fiscal Balance

Different Forms of Decomposition of the NG Expenditures

Cash Operations (BTr)	Expense Class (DBM)	Sector (DBM)
Allotment to LGUs	Current Operating	Economic Services
Interest Payments	Expenses	Social Services
Tax Expenditures	Capital Outlay	Defense
Subsidy	Net Lending	General Public Services
Equity		Net Lending
Net Lending		Debt Services – Interest
NG Disbursements		Payments



Revenues Expenditures **Debt** Fiscal Balance

Utilization Rate of Government Agency , % of Allotment

Departments	2017	2018	2019	2020	2021	2022	Ave. 2017-2022
DICT	38.9%	67.7%	49.5%	31.7%	26.9%	25.6%	40.1%
DOTr	39.2%	40.7%	42.5%	36.9%	41.5%	47.4%	41.4%
DPWH	36.3%	42.9%	56.4%	31.2%	53.8%	61.2%	47.0%
DOE	45.0%	56.0%	49.3%	66.6%	60.0%	59.0%	56.0%
NEDA	74.7%	67.5%	65.4%	77.3%	53.8%	60.5%	66.5%
DA	66.1%	73.4%	75.3%	64.9%	70.3%	71.2%	70.2%
DOH	63.3%	65.0%	73.8%	80.4%	71.4%	68.7%	70.4%
DFA	80.3%	92.1%	87.3%	72.4%	58.4%	61.7%	75.4%
TOTAL	65.8%	72.9%	78.7%	76.9%	75.2%	76.6%	74.4%

Source: CPBRD



Revenues **Expenditures** Debt Fiscal Balance

Sectoral Composition of NG Expenditures



Economic Services

- Agriculture, Agrarian Reform
- Natural Resources and Environment
- Trade and Industry
- Tourism
- Power and Energy
- Water Resources Development & Flood Control
- Communications, Roads and Other Transportation
- Other Economic Services
- Subsidy to Local Government Units



Social Services

- Education, Culture, and Manpower Development
- Health
- Social Security, Welfare and Employment
- Land Distribution (ARF)
- Housing and Community Development
- Other Social Services
- Subsidy to Local Government Units



Defense

- Domestic-Security



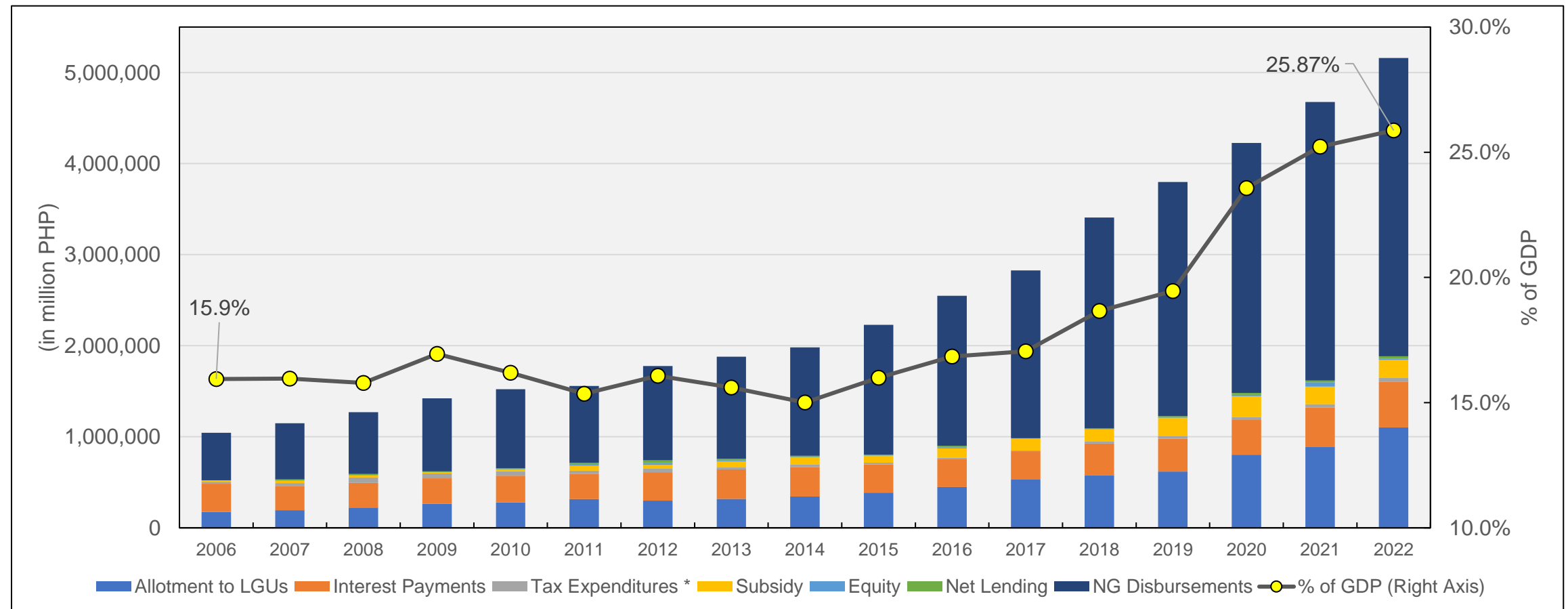
General Public Services

- General Administration
- Public Order and Safety
- Other General Public Services
- Subsidy to Local Government Units



Revenues **Expenditures** Debt Fiscal Balance

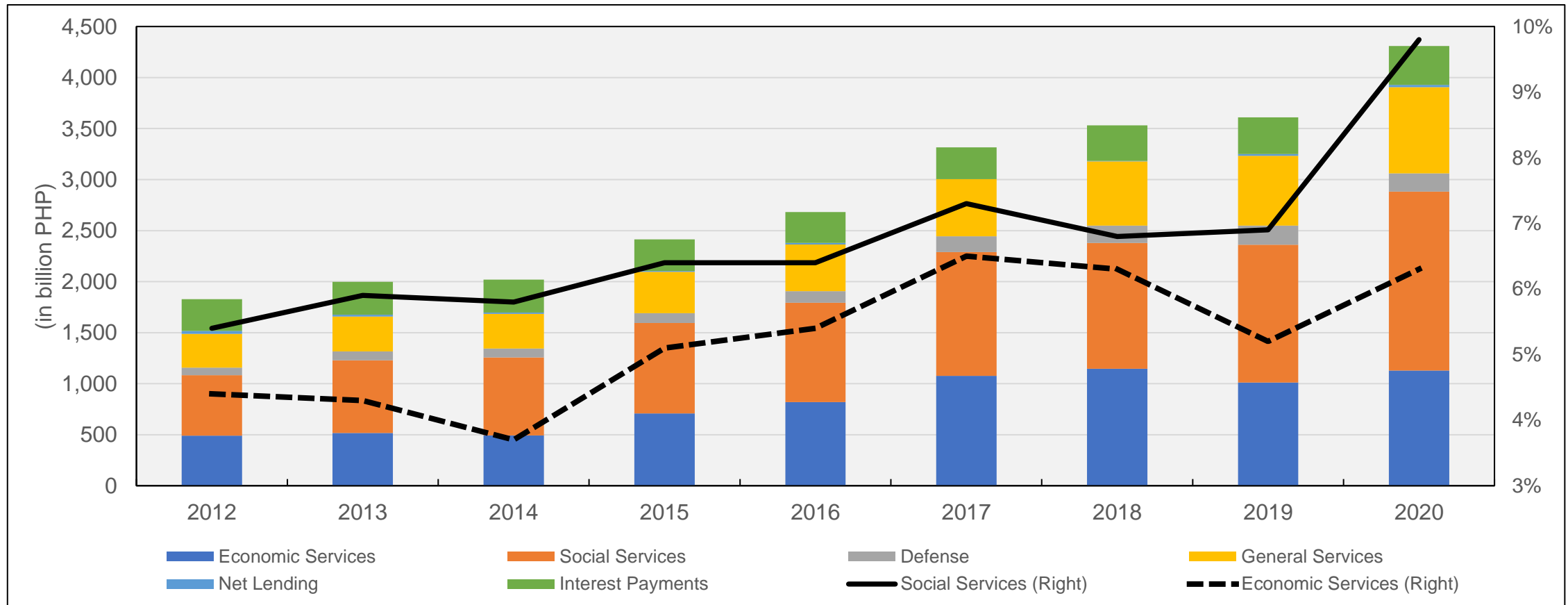
National Government Expenditures, 2006–2022



Source: DoF

Revenues **Expenditures** Debt Fiscal Balance

NG Expenditure, By Sector, 2012–2020

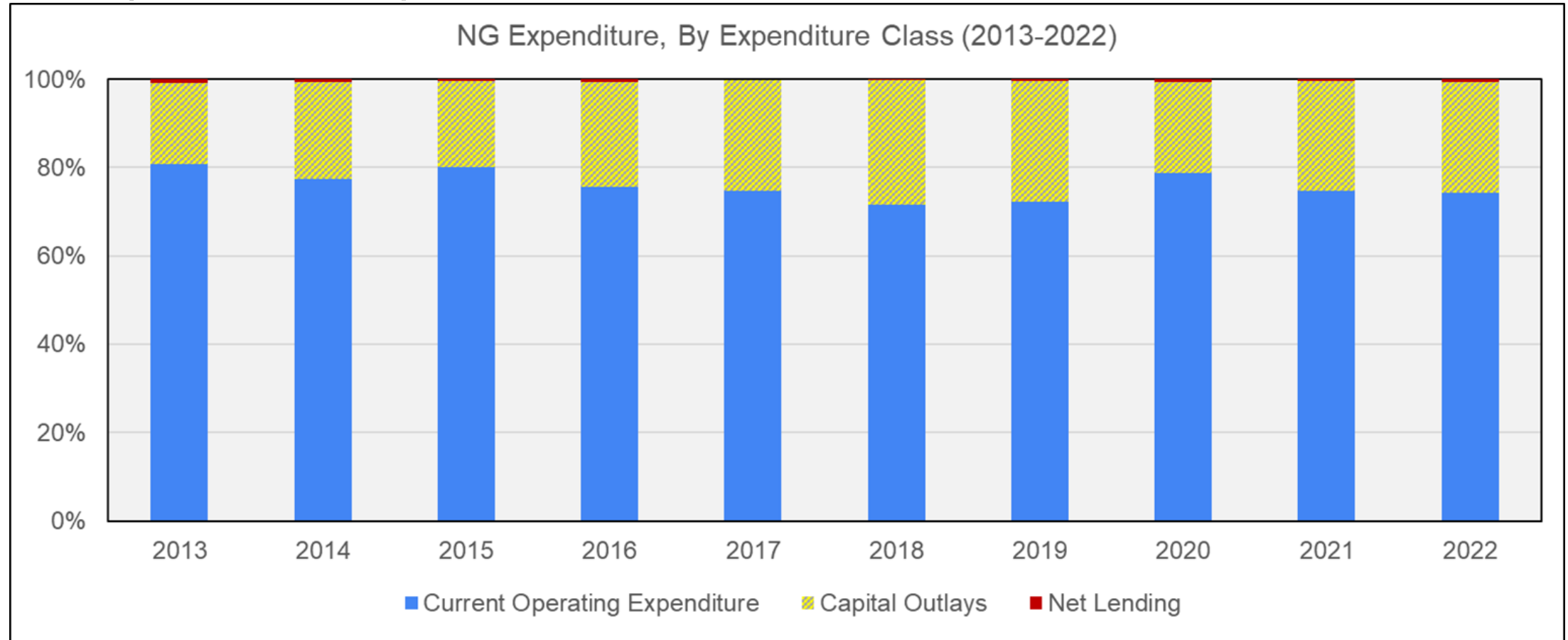


Source: CBPRD



Revenues **Expenditures** Debt Fiscal Balance

NG Expenditure, By Class, 2013–2022

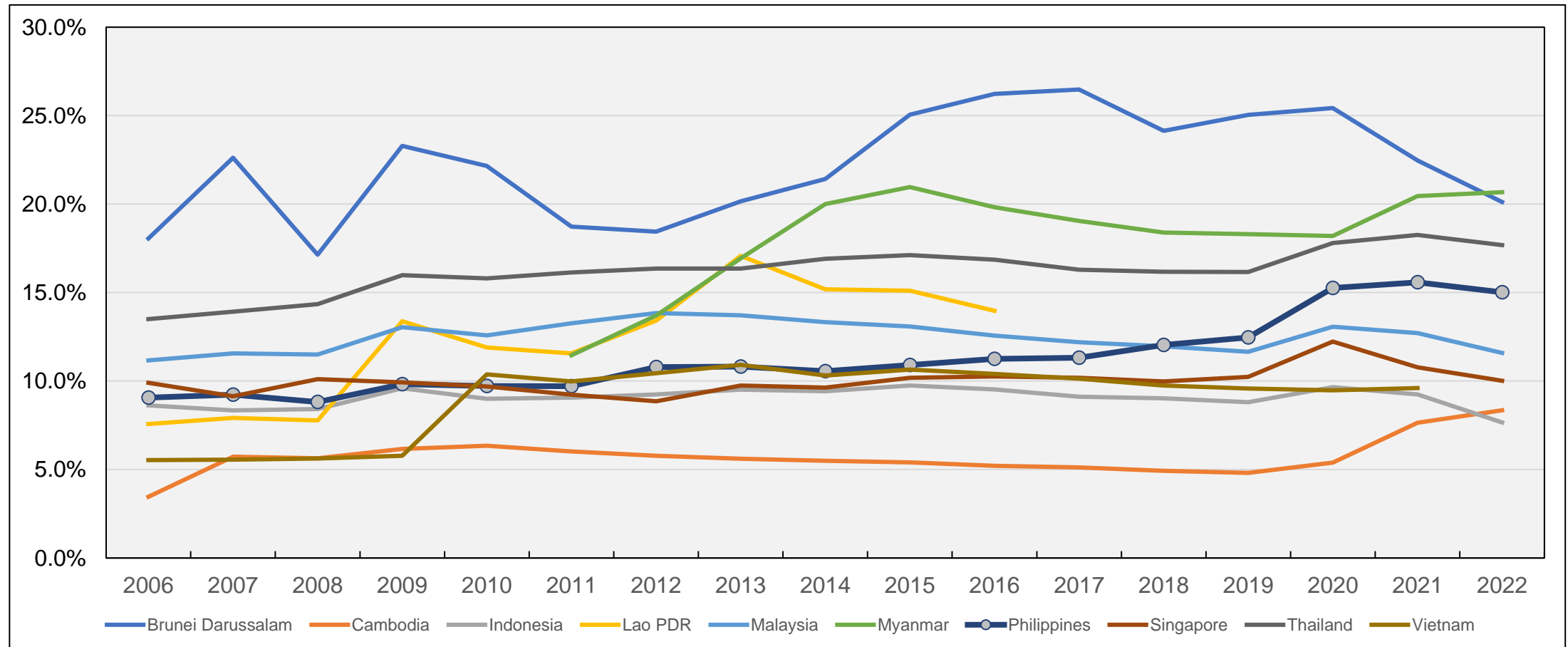


Source: DBM



Revenues **Expenditures** Debt Fiscal Balance

National Government Expenditures, 2006–2022



Source: World Bank



Revenues Expenditures Debt Fiscal Balance

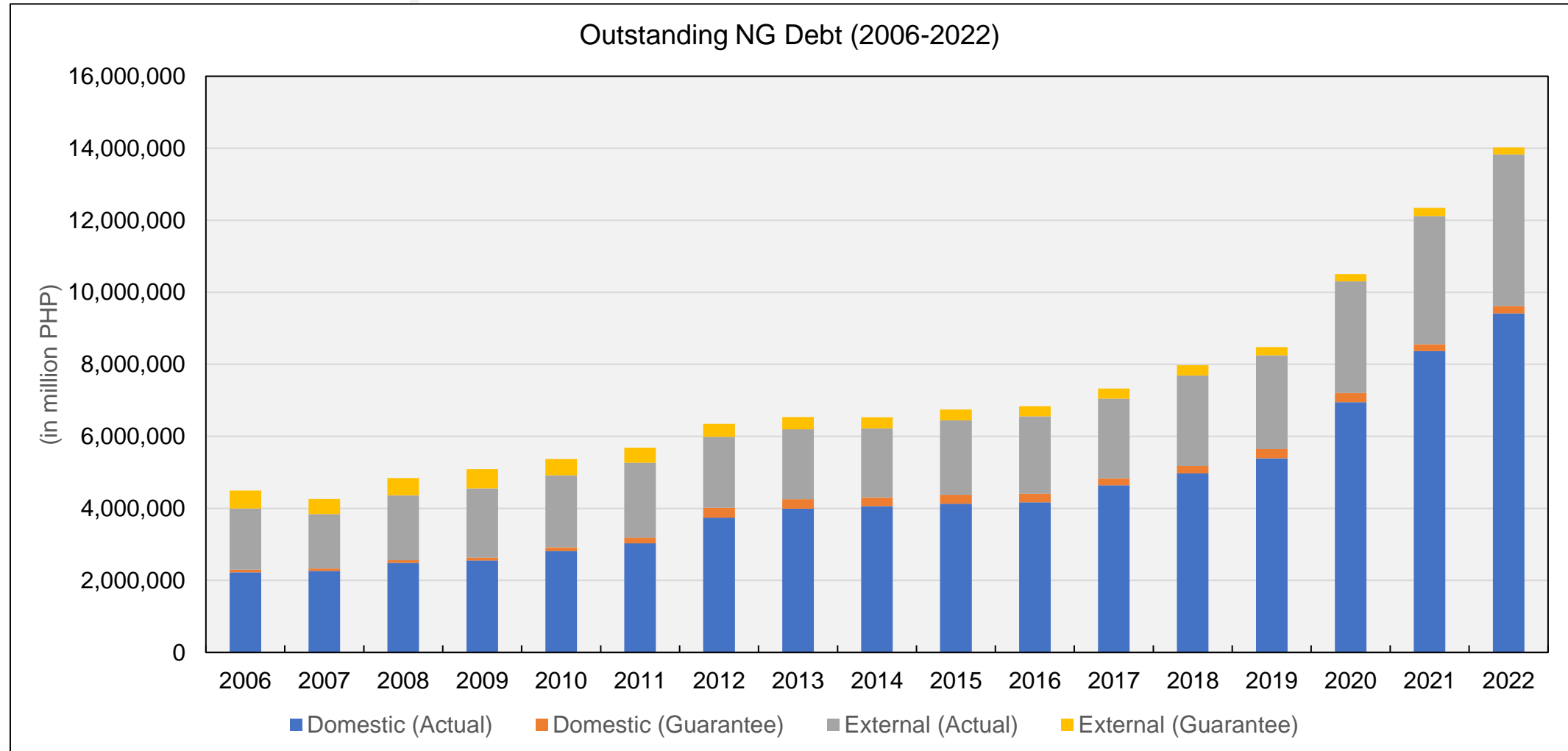
The clipping from BusinessWorld includes several articles: 'PHL factory activity perks up in July', 'Outstanding debt hits P14.15-T as of end-June', 'Gov lures traders to increase rice imports', and 'Philippines EU free trade deal seen in 5 years'. It also features a 'MANUFACTURING PURCHASING MANAGERS' INDEX (PMI) OF SELECT ASEAN ECONOMIES, JULY 2023' chart and a 'PHILIPPINES' Manufacturing PMI' bar chart.

In Million PHP (as of July 2023)		% of Total
Domestic Debt		
	9, 812, 367	68.9
Loans	156	0.001
Debt Securities	9, 812, 211	68.9
External Debt		
	4, 431, 926	31.1
Loans	229, 018	14.2
Debt Securities	12, 810	16.9
Total		
	14, 244, 293	

Source: BTr



Revenues Expenditures **Debt** Fiscal Balance

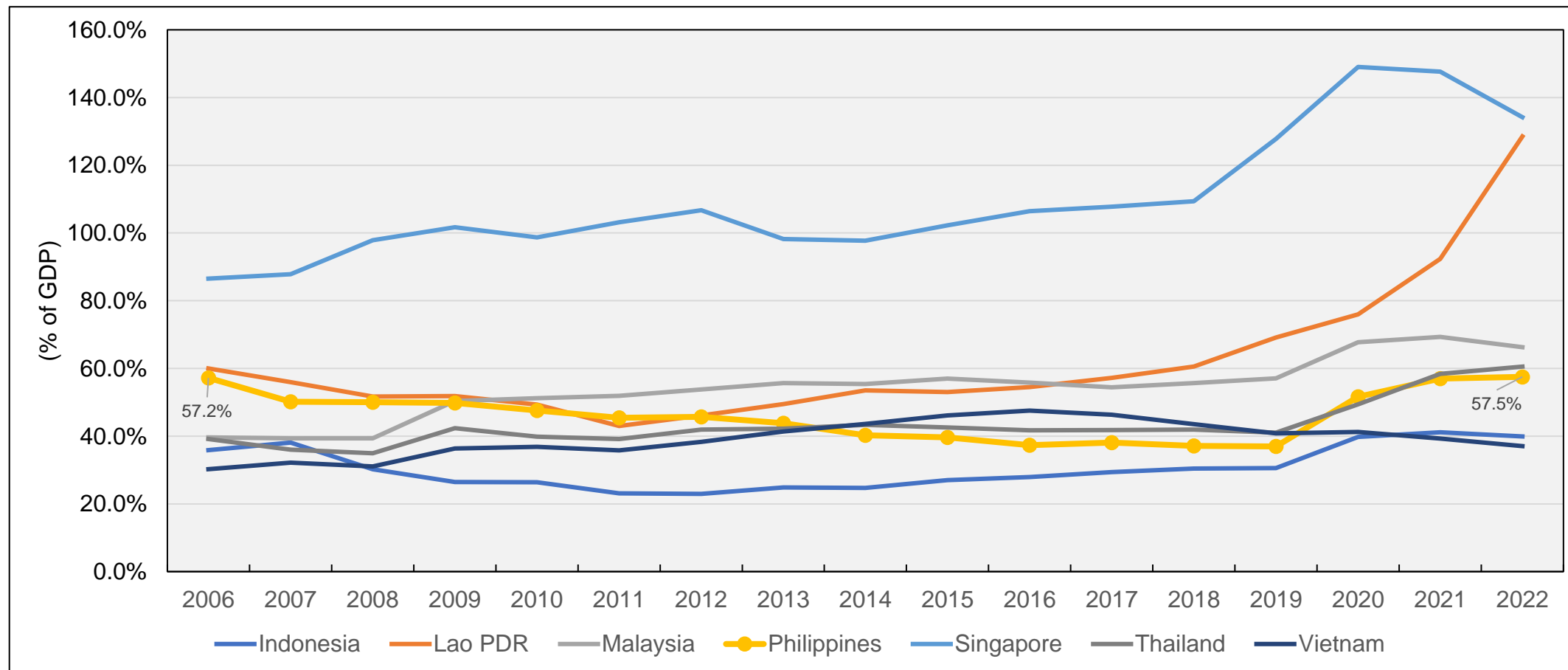


Source: BTr



Revenues Expenditures **Debt** Fiscal Balance

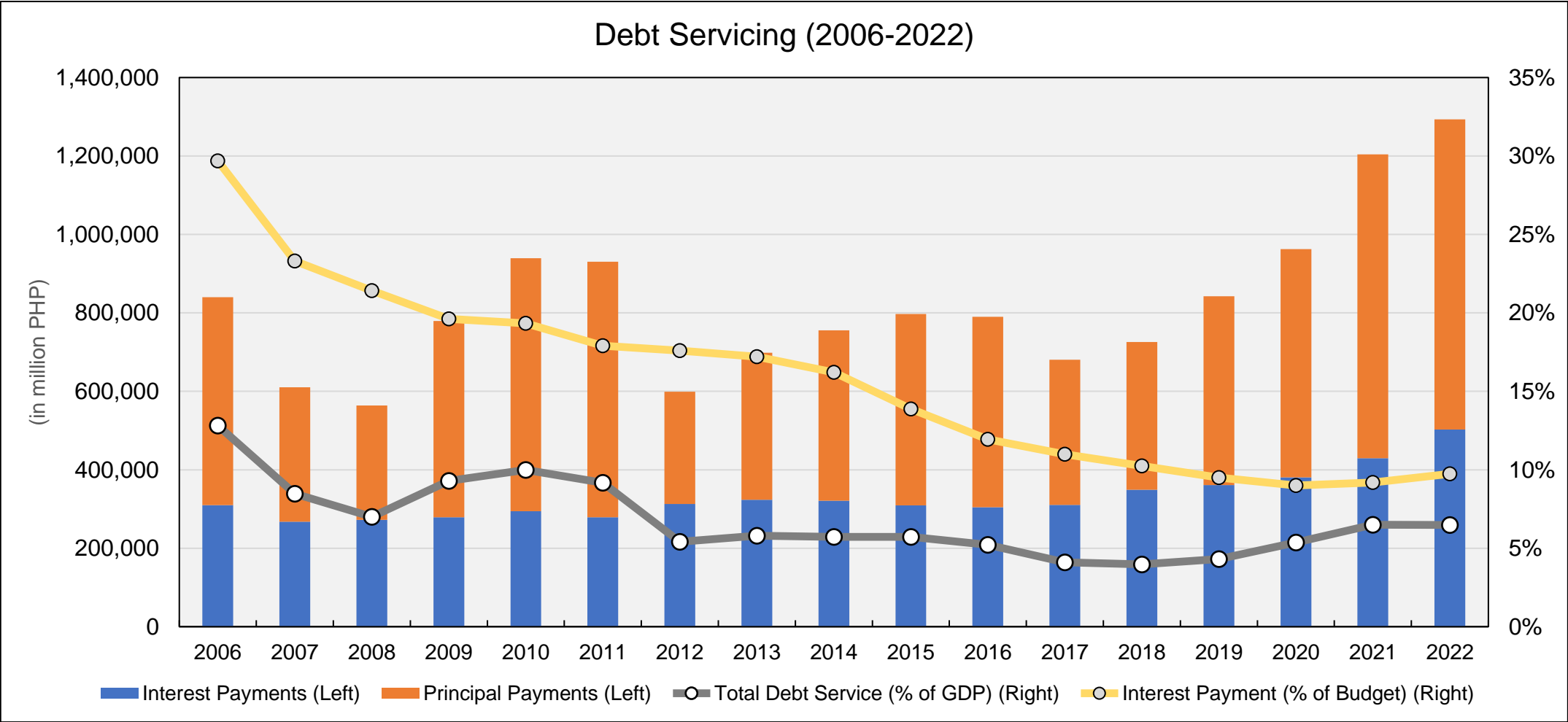
Gross Debt Position as % of GDP (2006-2022)



Source: IMF Fiscal Monitor



Revenues Expenditures **Debt** Fiscal Balance



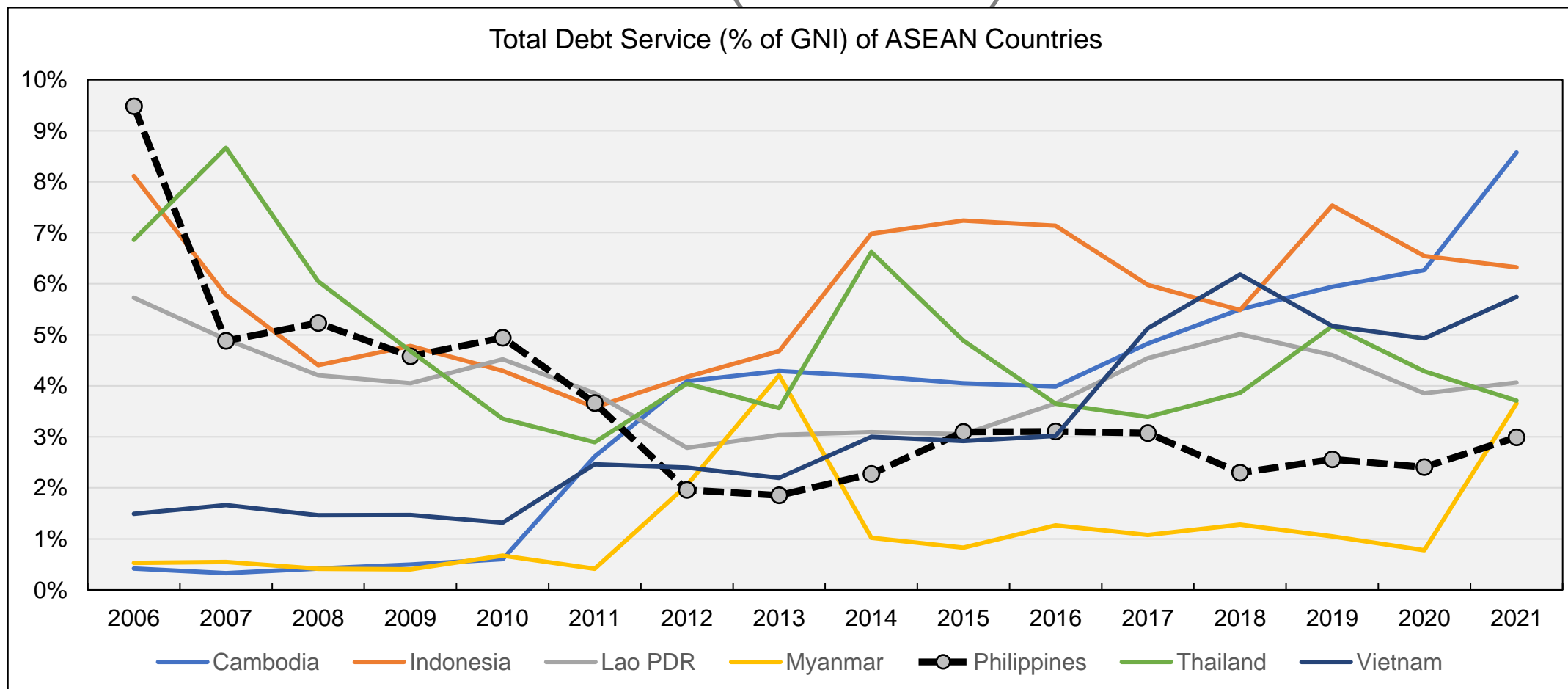
Source: BTr

Revenue Growth Chart



Revenues Expenditures **Debt** Fiscal Balance

Total Debt Service as % of GNI (2006–2021)



Source: World Bank



Revenues Expenditures Debt **Fiscal Balance**

Fiscal Balance Indicators

Fiscal Balance Indicators	Equivalent Term in Statistical Methodologies
Net Lending/Borrowing (Overall Balance)	Revenue minus expense minus net investment in nonfinancial assets or Revenue minus expenditure; or Net operating balance minus net investment in nonfinancial assets
Primary Balance	Net lending/net borrowing excluding interest expense or net interest expense.
Cyclically adjusted balance	Trend balance through an economic cycle, which is the fiscal balance, stripped of the impact of cyclical movements in revenue and expenditure (for government, usually only unemployment benefits payable are eliminated).
Fiscal impulse	Change in the structural primary balance between two reporting periods. (Often also calculated using the [overall] structural balance, or the cyclically adjusted [primary] balance.)
Consolidated Public Sector Financial Position	Net deficit or surplus calculated after summing-up the budget balances of all government entities, namely the national government, the non-financial government corporations (usually includes only the 14 major GOCCs), government financial institutions, local government units, the social security institutions, the Oil Price Stabilization Fund, the Bangko Sentral ng Pilipinas, and the Central Bank-Board of Liquidators.

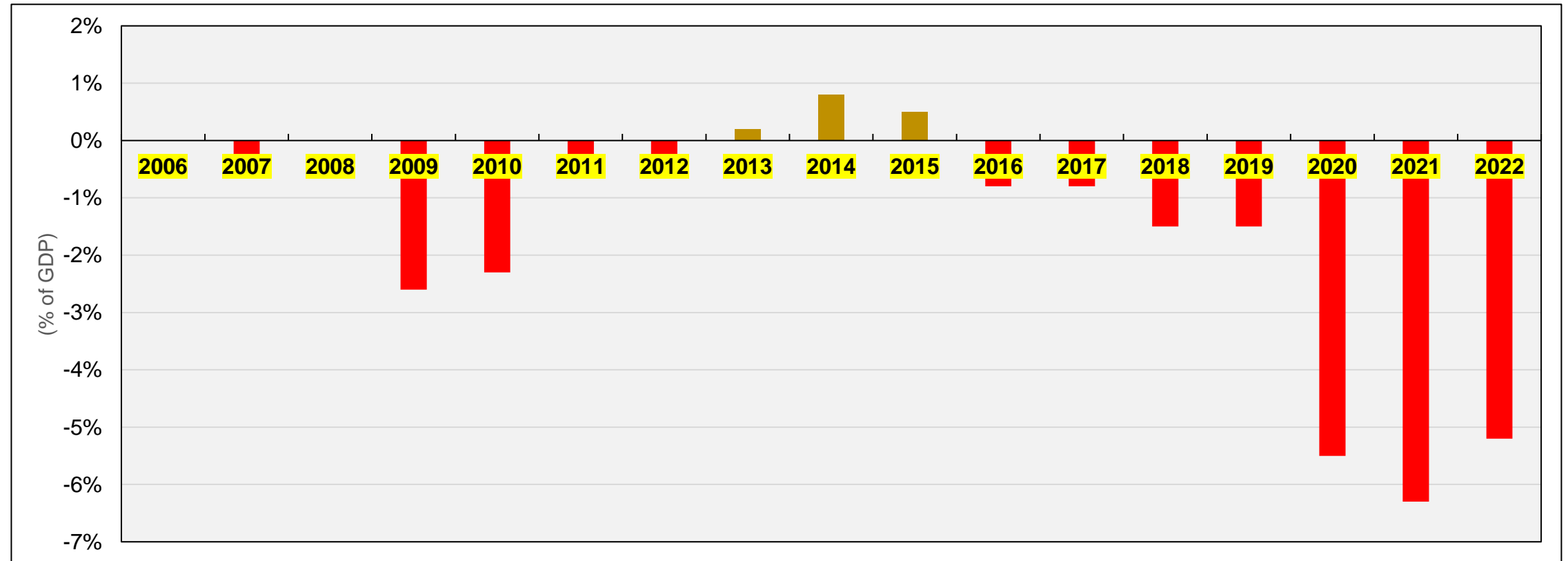
Source: GFSM



Revenues Expenditures Debt **Fiscal Balance**

Net Lending/Borrowing as % of GDP (2006–2022)

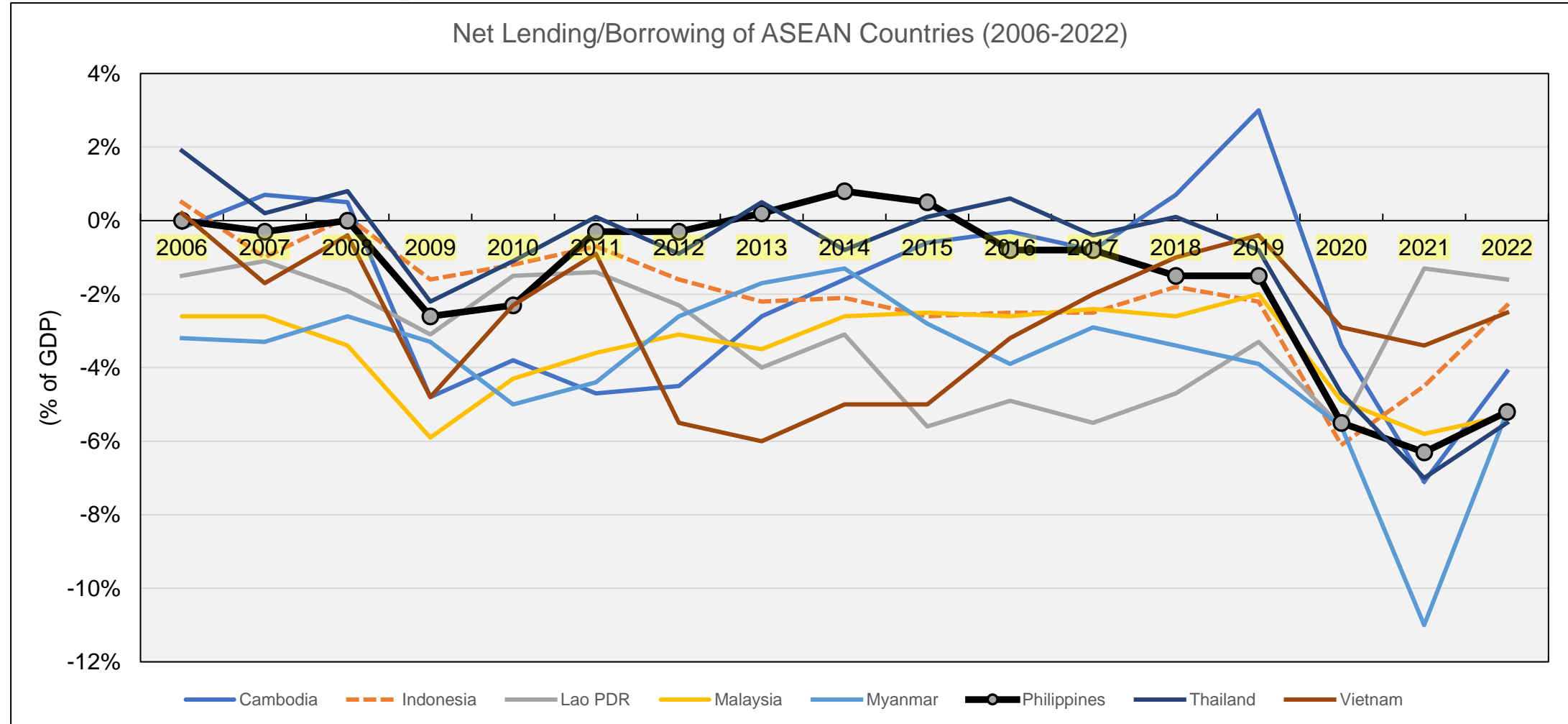
Overall Fiscal Balance



Source: IMF Fiscal Monitor



Revenues Expenditures Debt **Fiscal Balance**



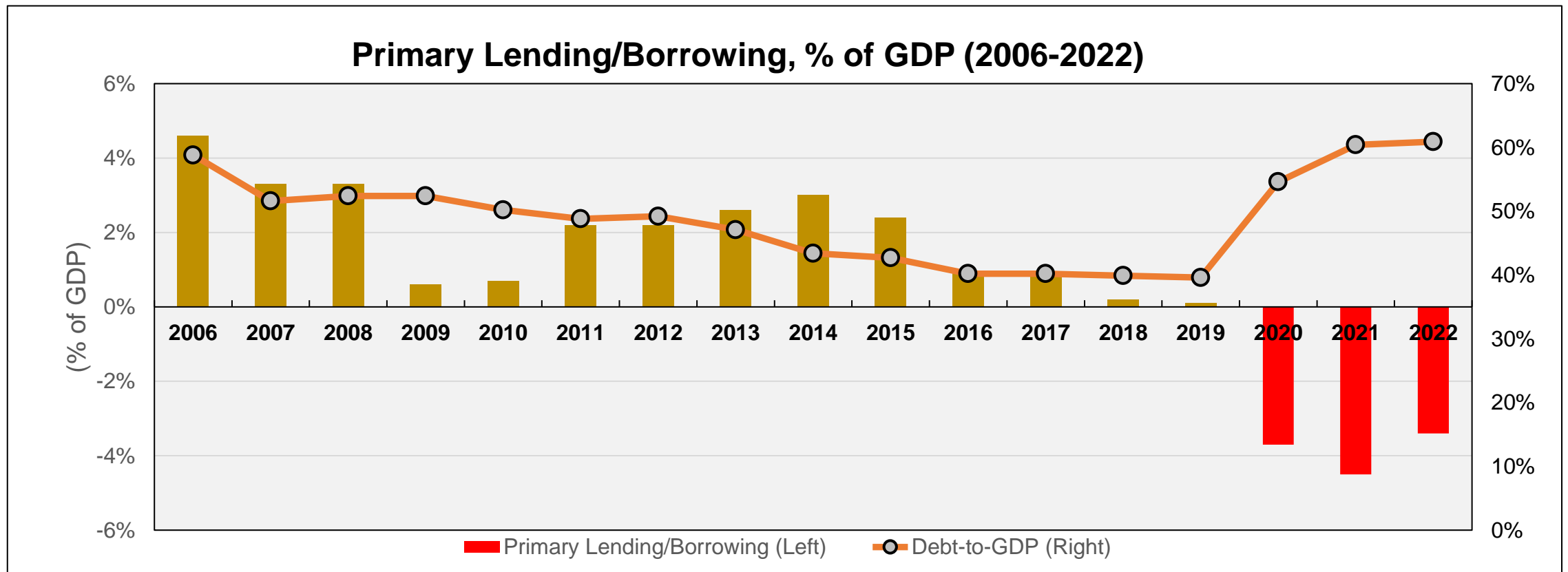
Source: IMF Fiscal Monitor



Revenues Expenditures Debt **Fiscal Balance**

Primary Lending/Borrowing as % of GDP (2006–2022)

Primary Balance



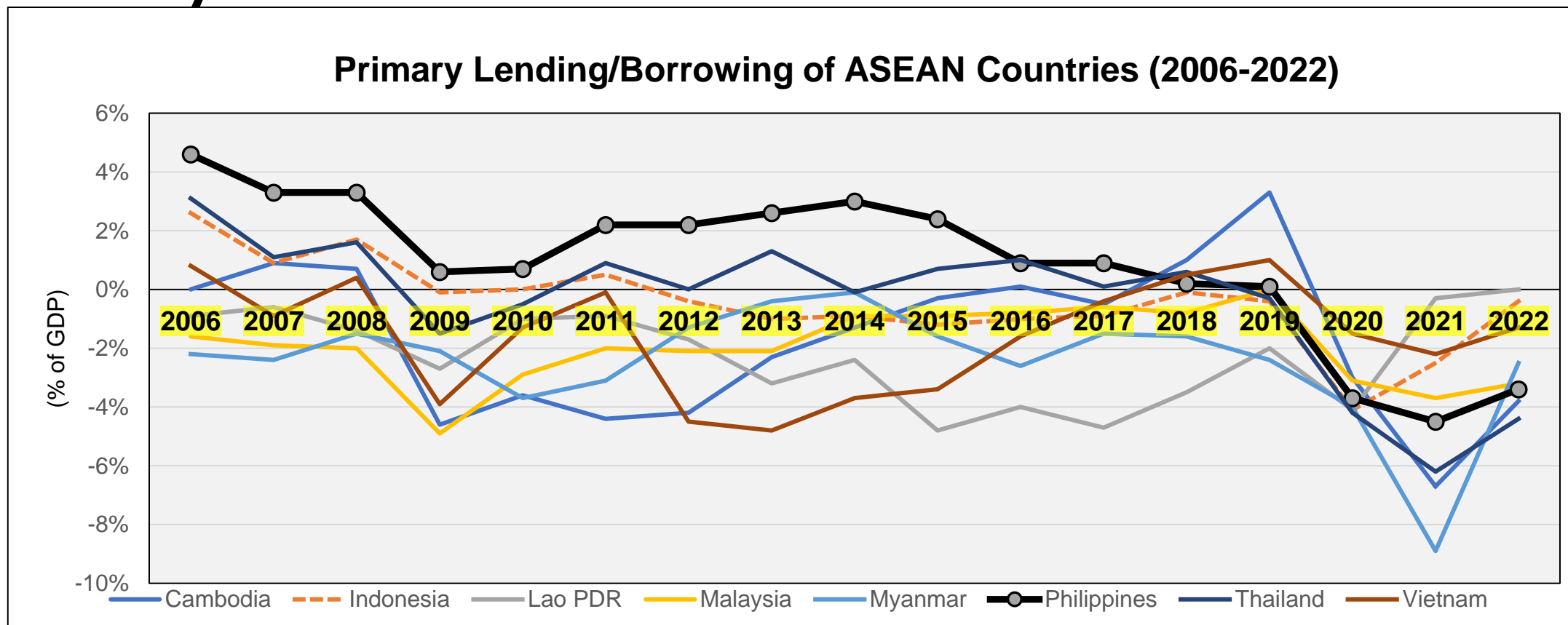
Source: IMF Fiscal Monitor



Revenues Expenditures Debt **Fiscal Balance**

Primary Lending/Borrowing as % of GDP (2006–2022)

Primary Balance

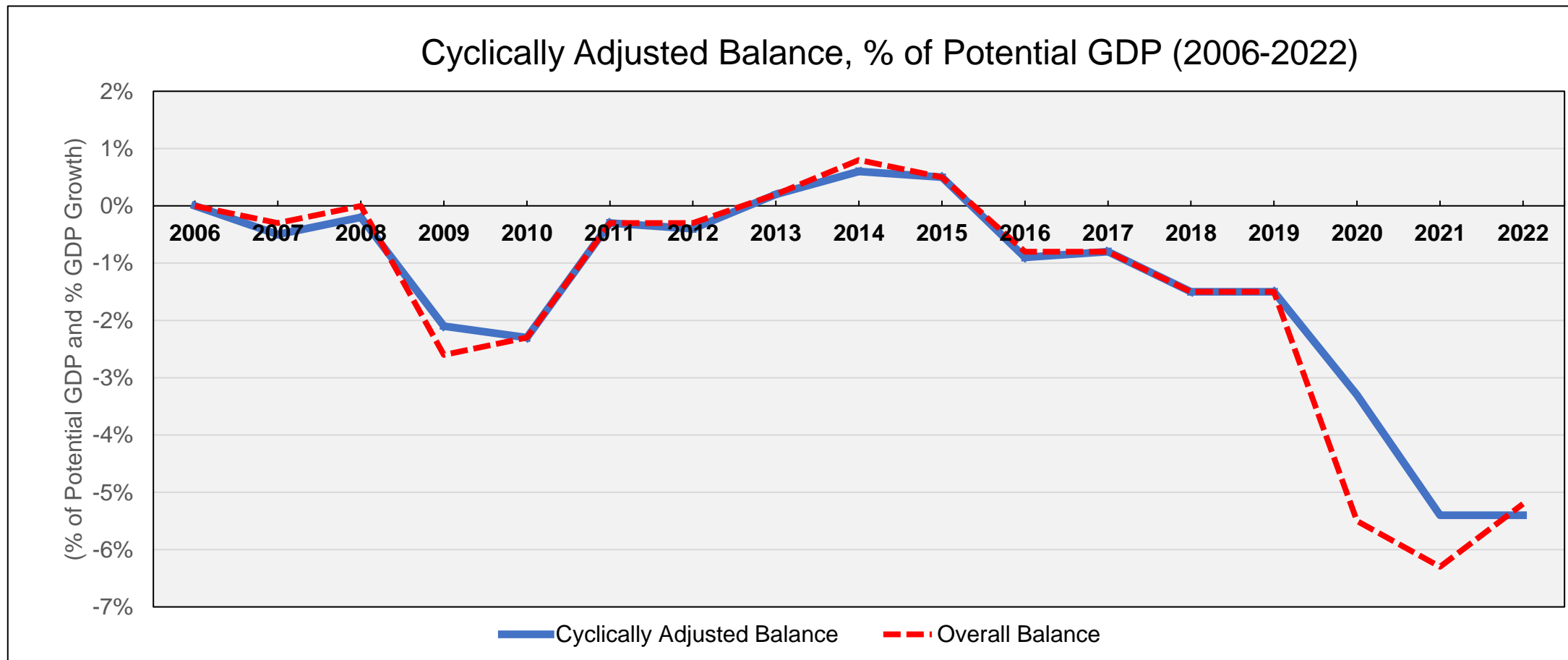


Source: IMF Fiscal Monitor



Revenues Expenditures Debt **Fiscal Balance**

Cyclically Adjusted Balance as % of Potential GDP (2006–2022)

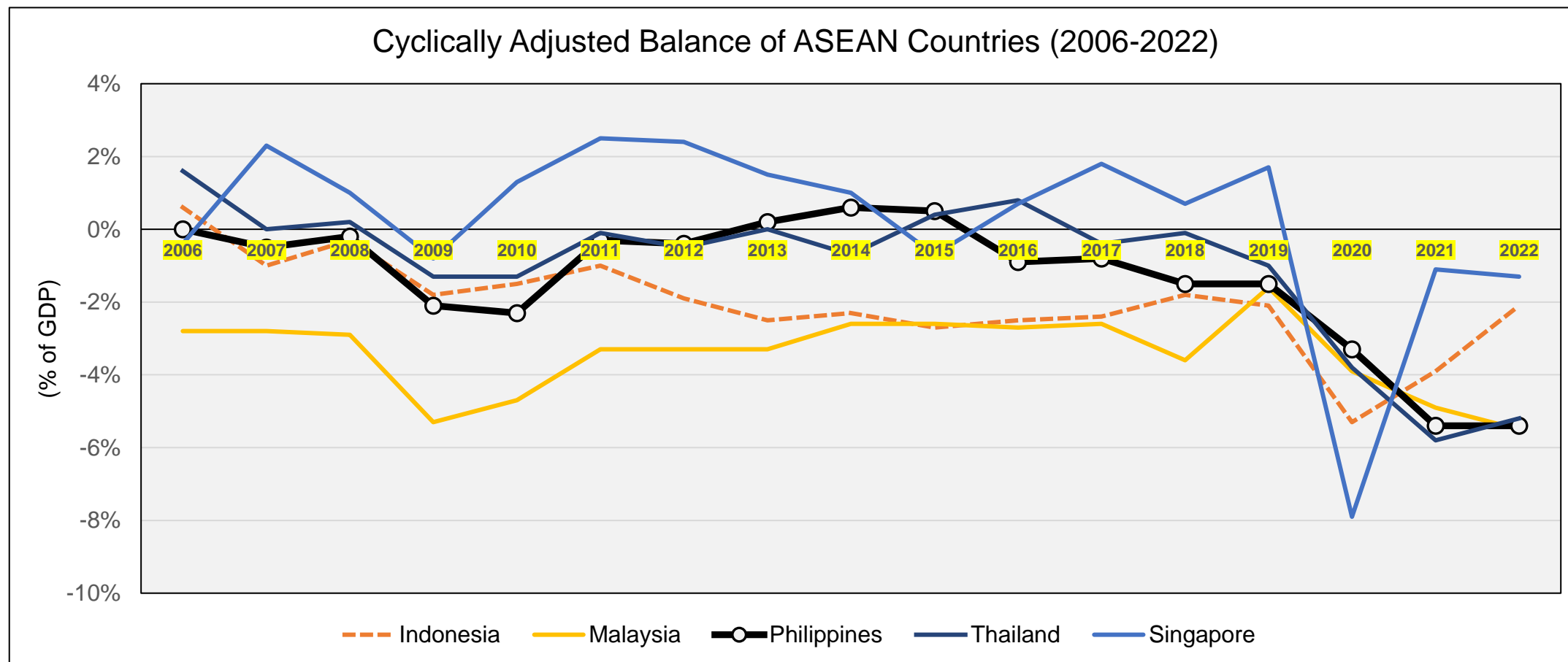


Source: IMF Fiscal Monitor



Revenues Expenditures Debt **Fiscal Balance**

Cyclically Adjusted Balance as % of Potential GDP (2006–2022)

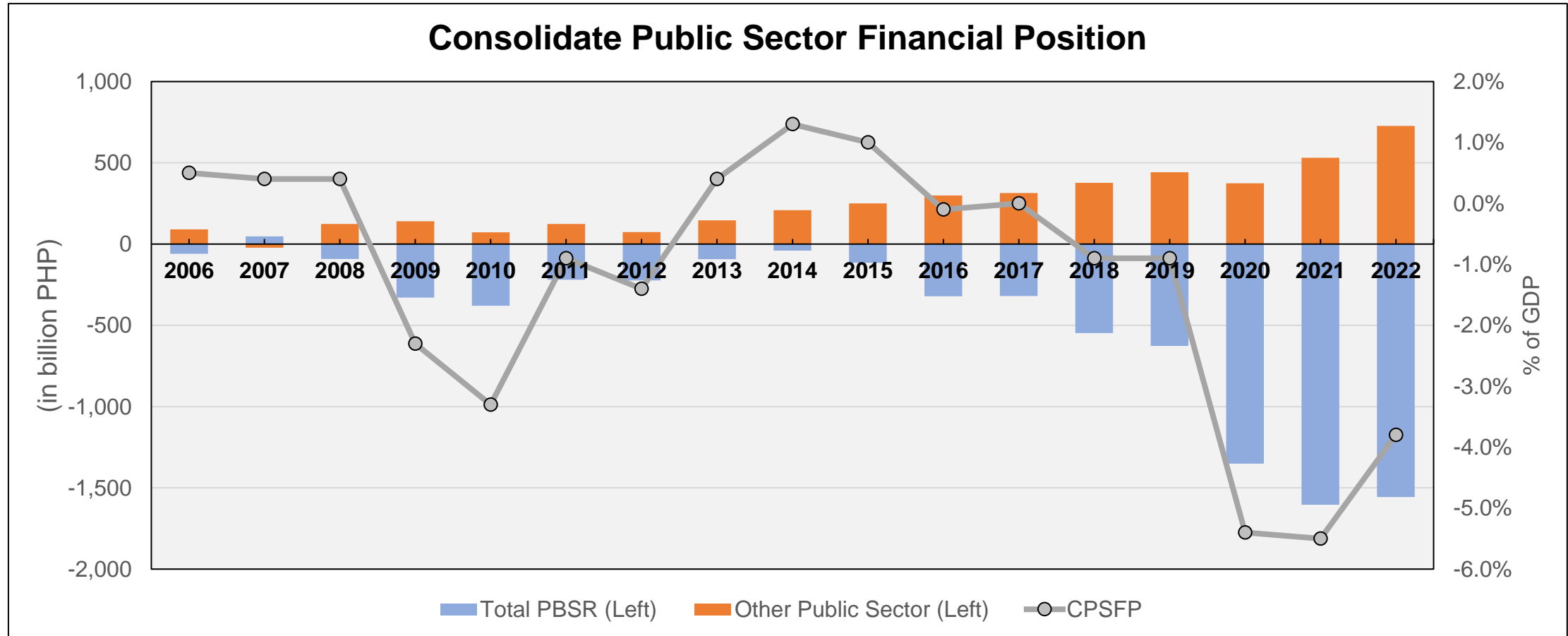


Source: IMF Fiscal Monitor



Revenues Expenditures Debt **Fiscal Balance**

Public Sector Financial Position (2006–2022)



Source: DoF



Revenues Expenditures Debt **Fiscal Balance**

Components of Public Sector Financial Position (PSFP)

	Public Sector Borrowing Requirement (PSBR)	National Government + Central Bank (CB) Restructuring + Monitored Government Owned and Controlled Corporations (GOCCs) + Net Lending + Others
+	Other Public Sector	SSS/GSIS + BSP + Government Financial Institutions (GFIs) (e.g., LBP and DBP) + Local Government Units (LGUs) + Others
= Public Sector Financial Position (PSFP)		



Revenues Expenditures Debt **Fiscal Balance**

Fiscal Stance (FS) and Fiscal Impulse (FI)

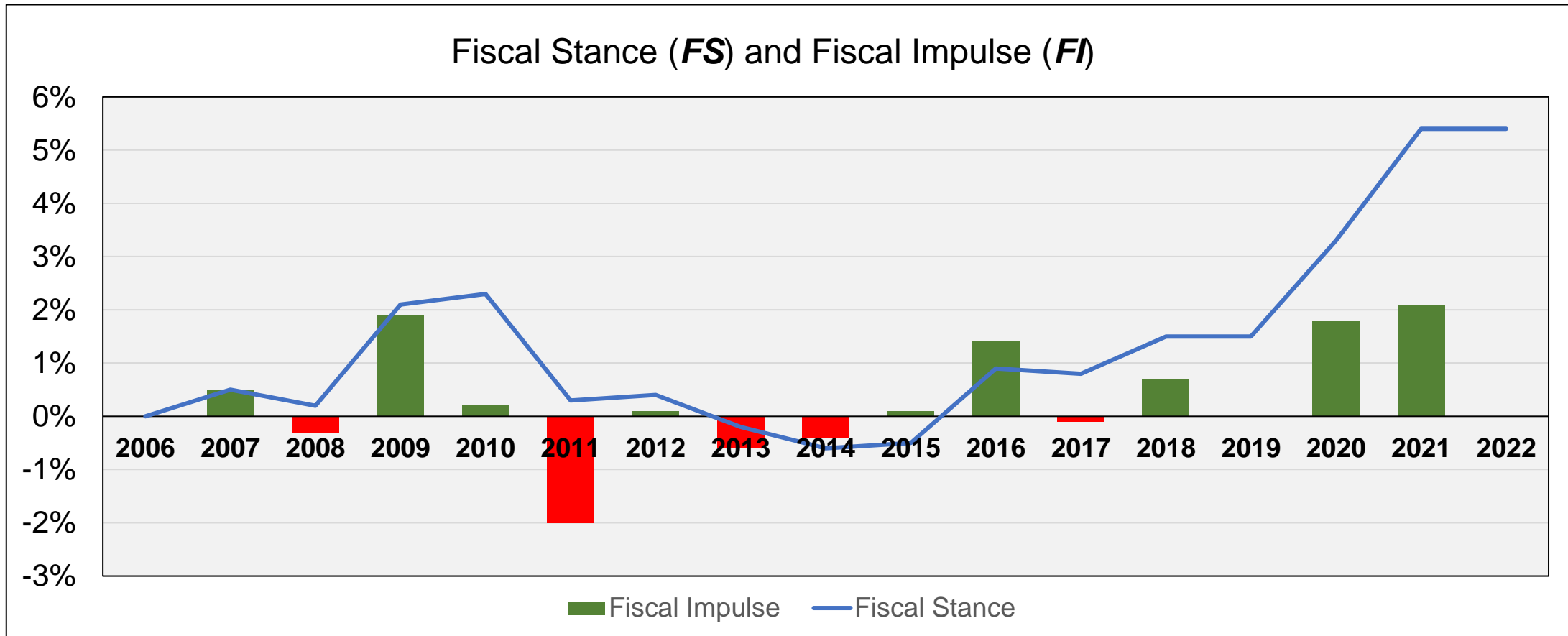
Fiscal Stance (FS)	Fiscal Impulse (FI)
$FS_t = -CAOB_t$	$FI_t = FS_t - FS_{t-1}$
$FI > 0 \Rightarrow$ Expansionary Fiscal Policy $FI = 0 \Rightarrow$ Neutral Fiscal Policy $FI < 0 \Rightarrow$ Contractionary Fiscal Policy	$FI > 0 \Rightarrow$ More expansionary $FI < 0 \Rightarrow$ Less expansionary

Source: IMF Fiscal Monitor



Revenues Expenditures Debt **Fiscal Balance**

Fiscal Stance (FS) and Fiscal Impulse (FI)



Source: IMF Fiscal Monitor



Philippine Fiscal Reforms



Tax Reforms

Reforms (Years)	Salient Features and Fiscal Effects
RA 10351 – Sin Tax Reform (2012)	<p><i>Salient Features:</i></p> <ul style="list-style-type: none">- Alcohol and tobacco products with higher retail prices are subjected to higher tax rates- Restructured excise taxes on alcohol and tobacco <p><i>Fiscal Effects:</i></p> <ul style="list-style-type: none">- Helped finance the universal healthcare program (Debuque-Gonzales et al., 2022, pp. 15)
RA 10708 – Tax Incentives Management and Transparency Act (2015)	<p><i>Salient Features:</i></p> <ul style="list-style-type: none">- Sought to optimize the social benefits of tax incentives
RA 10963 – TRAIN Law (2017) (Tax Reform Package 1 under the Duterte Administration)	<p><i>Salient Features:</i></p> <ul style="list-style-type: none">- Increased excise taxes petroleum, sugary beverages, and tobacco products.- Changes personal income tax structure by lowering income tax rates for majority of taxpayers- Expanded the VAT base by including previously exempt transactions <p><i>Fiscal Effects:</i></p> <ul style="list-style-type: none">- Mixture of “revenue increasing and revenue losing measures”- Estimated to reduce total tax revenues of the National Government of ₱66 billion in 2018 and ₱33 billion in 2019- Additional revenue is estimated at ₱6 billion annually in 2020 onwards (Manasan, 2018, pp. 25)- Overall income distributional impact is regressive when including proposed targeted subsidies (Manasan, 2018, pp. 26)



Tax Reforms

Reforms (Years)	Salient Features and Fiscal Effects
RA 11213 – Tax Amnesty Act (2019) (Tax Reform Package 1B)	<i>Salient Features:</i> <ul style="list-style-type: none">- Extended amnesty on estate taxes to June 2025 <i>Fiscal Effects:</i> <ul style="list-style-type: none">- Together with TRAIN law, improves tax effort by half a percent (Debuque-Gonzales et al., 2022, pp. 15)
RA 11346 – Tobacco Tax Law 2019	<i>Salient Features:</i> <ul style="list-style-type: none">- Previously excise-free e-cigarettes are levied ₱10 per pack- Higher excise taxes on cigarettes <i>Fiscal Effects:</i> <ul style="list-style-type: none">- Raised revenues as tobacco products are generally inelastic- Improve tax effort (and revenue effort)
RA 11467 – Increase excise taxes on alcohol and e-cigarettes	<i>Salient Features:</i> <ul style="list-style-type: none">- Further increases the excises taxes on e-cigarettes and alcoholic beverages <i>Fiscal Effects:</i> <ul style="list-style-type: none">- Raised revenues as tobacco products and alcoholic beverages are generally inelastic- Improve tax effort (and revenue effort)



Tax Reforms

Reforms (Years)	Salient Features and Fiscal Effects
EO 91, s. 2019 – Adoption of Cash-Based Appropriations (2019)	<p><i>Salient Features:</i></p> <ul style="list-style-type: none">- Appropriations are valid only for one year <p><i>Fiscal Effects:</i></p> <ul style="list-style-type: none">- Supposedly to speed up project implementation and increase budget utilization of NGAs- Effects not apparent when looking at utilization rate trends (Table 3)
RA 11534 - Corporate Recovery and Tax Incentives for Industries (CREATE) Act (2021)	<p><i>Salient Features:</i></p> <ul style="list-style-type: none">- Lowered the Corporate Income Tax (CIT) from 30% to 25%.- For domestic companies with a taxable income of P5 million and below, and with total assets of not more than P100 million, their CIT was cut from 30% to 20%.- Reduced percentage tax for non-VAT taxpayers from 3% to 1%.- Reduced minimum corporate income tax (MCIT) from 2% to 1%. <p><i>Fiscal Effects:</i></p> <ul style="list-style-type: none">- Decrease government tax revenue with lower tax rate; estimated at ₱456 billion (Prodent, 2021)- Expected firms to reinvest tax relief, increase the country's competitiveness (with lower (CIT), therefore increase economic activity, which allows for greater tax revenue in medium to long term



ADB Policy Recommendations vis-à-vis Some Philippine Policy/Actions/Programs

ADB Recommendations	Government Policy/Actions/Programs
Institute efficient tax collection machinery	- Increase excise taxation through RAs 11346 and 11467
Streamline the tax incentive program	- RA 10708 or the Tax Incentives Management and Transparency Act - RA 11543 or the CREATE Act (on amendments to Title XIII of the National Internal Revenue Code with regards to Tax Incentives)
Cut losses of and subsidies to Government corporations	- Privatization of the National Power Corporation (NPC) generation assets - Privation of idle government assets (through the Privatization Council)
Strengthen expenditure management	- EO 91, s. 2019 – Adoption of Cash-Based Appropriations (2019)



Future Outlook of the Philippine Fiscal Health



Macroeconomic Assumptions

Indicators	2023	2024	2025-2028
Inflation (%)	5.0 - 7.0	2.0 - 4.0	2.0 - 4.0
Dubai crude oil (USD/bbl)	70 - 90	70 - 90	60 - 80
Forex (Php/USD)	53 - 57	53 - 57	53 - 57
Goods Exports Growth, BPM6 (%)	3.0	6.0	6.0
Goods Imports Growth, BPM6 (%)	4.0	8.0	8.0
Services Exports Growth, BPM6 (%)	17.0	16.0	6.0
Services Imports Growth, BPM6 (%)	11.0	10.0	8.0

Source: DBCC



Medium-Term Fiscal Program, FYs 2023-2028

Table 58. Medium-Term Fiscal Program, FYs 2023-2028

(In billion pesos, unless otherwise indicated)

Particulars	2022	2023	2024	2025	2026	2027	2028
	Actual	Program ^{a/}	Projections ^{b/}				
REVENUES	3,545.5	3,729.0	4,272.6	4,729.5	5,294.9	5,939.7	6,670.3
<i>% of GDP</i>	16.1%	15.2%	16.1%	16.3%	16.6%	17.0%	17.4%
<i>Growth Rate</i>	18.0%	5.2%	14.6%	10.7%	12.0%	12.2%	12.3%
DISBURSEMENTS	5,159.6	5,228.4	5,629.4	5,922.7	6,409.4	7,056.8	7,819.2
<i>% of GDP</i>	23.4%	21.3%	21.2%	20.4%	20.1%	20.2%	20.4%
<i>Growth Rate</i>	10.4%	1.3%	7.7%	5.2%	8.2%	10.1%	10.8%
SURPLUS/(DEFICIT)	(1,614.1)	(1,499.4)	(1,356.8)	(1,193.2)	(1,114.5)	(1,117.1)	(1,148.9)
<i>% of GDP</i>	-7.3%	-6.1%	-5.1%	-4.1%	-3.5%	-3.2%	-3.0%
Infrastructure Disbursements ^{c/}	1,278.5	1,292.7	1,365.2	1,470.0	1,617.7	1,916.0	2,303.3
<i>% of GDP</i>	5.8%	5.3%	5.1%	5.1%	5.1%	5.5%	6.0%
Memo Item:							
Nominal GDP	22,024.5	24,522.1	26,604.7	29,102.1	31,841.9	34,908.6	38,297.9

^{a/} Program approved by the DBCC on April 24, 2023.

^{b/} Program approved by the DBCC via an Ad Referendum on July 12, 2023.

^{c/} Include estimated NG infrastructure disbursements, and infrastructure components of subsidy and equity to GOCCs and transfers to LGUs.

Source: DBCC



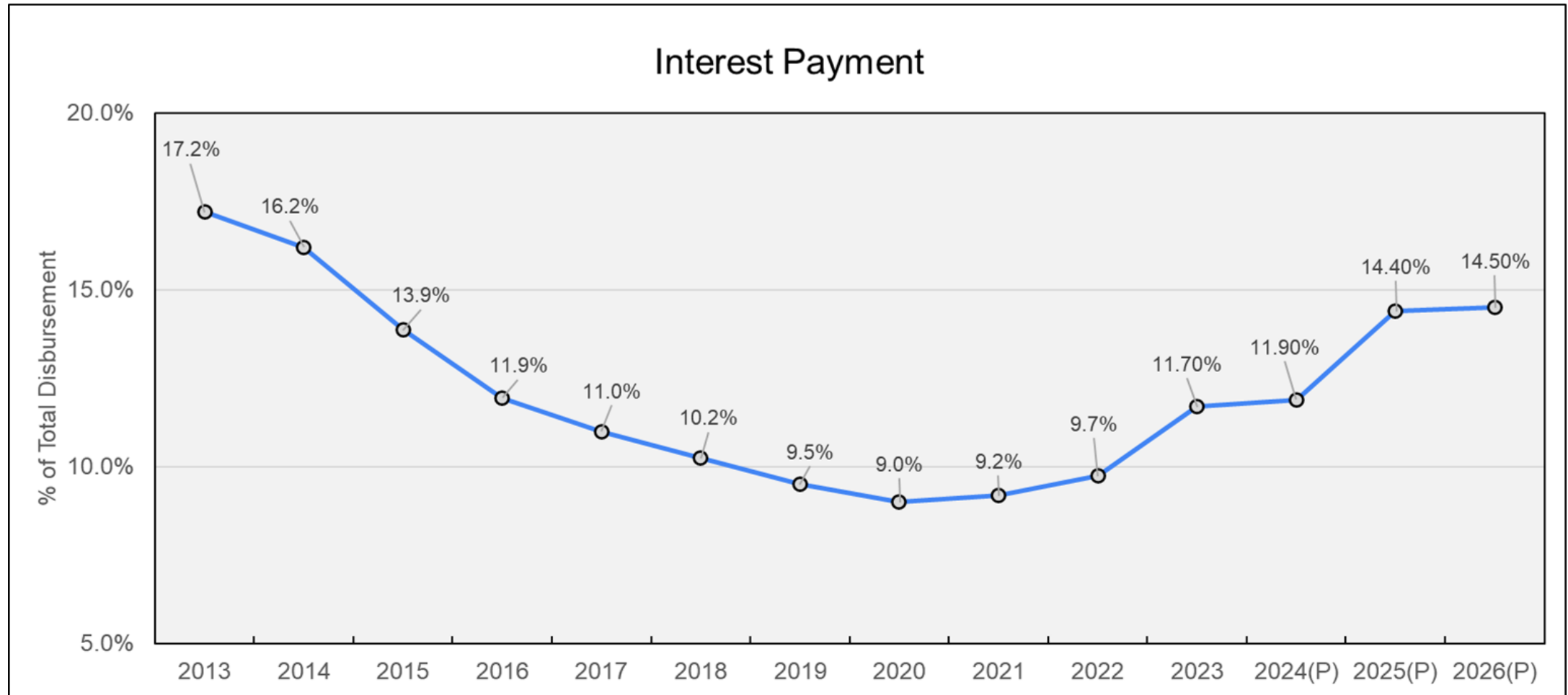
Interest Payments (2022–2026)

Particular	2022 Actual	2023 Program	2024 Projection	2025 Projection	2026 Projection
Interest Payments (billions PHP)	502.9	610.7	670.5	855.8	928.8
% Share to Total Disbursements	9.7	11.7	11.9	14.4	14.5

Source: DBM



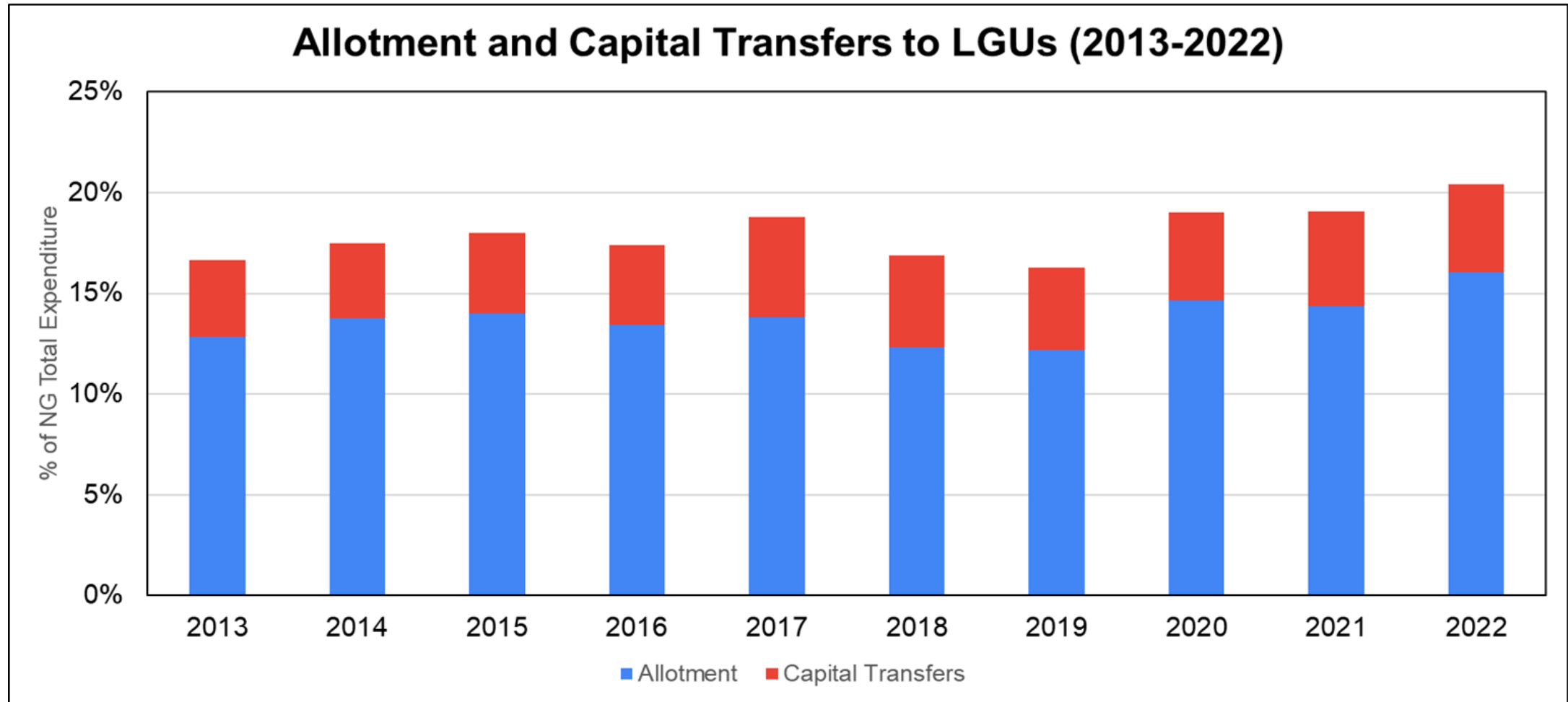
Interest Payment (2013–2026)



Source: DBM



Allotment and Capital Transfers to LGUs, 2013–2022



Source: DBM



Conclusions

Indicators	2007	2019	2022	Remarks
Fiscal Balance				
<i>Overall</i>	-0.28%	-1.46%	-5.2%	👎 Worse
<i>Primary</i>	3.27%	0.11%	-3.4%	👎 Worse
<i>Cyclically Adjusted</i>	-0.49%	-1.45%	-5.4%	👎 Worse
Tax Effort	13.0%	14.5%	16.15%	👍 Better
Revenue Effort	15.8%	16.1%	17.8%	👍 Better
Debt to GDP	50.17%	36.97%	59.2%	👎 Worse
Total Debt Servicing¹	4.88%	2.56%	2.99% <small>(2011)</small>	👍 Better
Interest Payments²	12.82%	4.32%	6.48%	👍 Better

1. % of GNI; 2. % of GDP

Expenditure, % of GDP



Thank you all!

