


# Presentation Outline

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1. Introduction
  2. Critique of PBBM's First SONA
    - a. Contextualizing the MTFF
    - b. Public Spending Priorities: Expenditure Realignment
    - c. Public Finance: Debt, deficit, revenues
    - d. Public Sector Governance
  3. Conclusion

# What did the Marcos administration inherit?

## Economy

- Suffered deep scarring due to the pandemic
  - MSMEs and labor market
- Signs of rebound with the reopening of the economy
- New challenges amid global shocks: inflation, supply chain challenges and a weak peso
- Fiscal consequences:
  - higher debt and deficit despite improvement in revenue collection
    - Total debt projected to reach Php13.4T by end of 2022
    - Debt-to-GDP ratio 63.5% as of end of Q1 2022
    - Deficit pegged at Php1.7T (7.6% of GDP) for 2022
  - 2021 and 2022 GAAs not designed for recovery

# What did the Marcos administration inherit?

## Society

- Unemployment rate at 6% (2.93 million Filipinos) as of May 2022
- Underemployment rate at 14.5% (6.67 million Filipinos) as of same period
- Poverty incidence up from 21% to 23%; number of poor increased from 22 million to 26 million
- Lower than target vaccination rate
- Crisis in education
- Crisis in transportation particularly in Metro Manila

## State

- Democratic backsliding
- Corruption
- Inefficiency

# Critique of PBBM's First SONA

1. The Medium-Term Fiscal Framework was thoroughly discussed but PBBM failed to present a coherent strategic vision of development for economy, state and society. Achieving the MTFF is NOT an end in itself but a means to shape economy, state and society.
2. PBBM emphasized “expenditure realignment”, but this sounds paradoxical as he talked about continuing Duterte’s legacy in the rest of his SONA. While steeped in technical details, his ambitious priorities reflect the same budget priorities outlined by the Duterte administration for 2023.
3. PBBM promised to bring down the debt and the deficit by the close of his term. But with revenue-neutral tax reform packages and taxes on digital services projected at Php11.3B against planned spending reaching about Php7T, the SONA opens up questions about public financial management.
4. There were no references to democratic norms such as upholding the rule of law or a strong commitment to good governance.

# MTFF is only a means to an end

- What is PBBM's vision for the Philippines? What will the PH economy, state and economy look like once these targets are achieved?

| PARTICULARS          | 2022             | 2023             | 2024             | 2025             | 2026             | 2027             | 2028             |
|----------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                      | Program          | Projections      | Projections      | Projections      | Projections      | Projections      | Projections      |
| <b>Revenues</b>      | <b>3,304.10</b>  | <b>3,632.90</b>  | <b>4,062.60</b>  | <b>4,576.80</b>  | <b>5,155.30</b>  | <b>5,821.40</b>  | <b>6,589.00</b>  |
| % of GDP             | 15.20%           | 15.30%           | 15.60%           | 16.00%           | 16.50%           | 17.00%           | 17.60%           |
| <b>Disbursements</b> | <b>4,954.60</b>  | <b>5,085.80</b>  | <b>5,402.00</b>  | <b>5,759.70</b>  | <b>6,249.60</b>  | <b>6,916.00</b>  | <b>7,711.70</b>  |
| % of GDP             | 22.90%           | 21.40%           | 20.70%           | 20.20%           | 20.00%           | 20.20%           | 20.60%           |
| <b>Deficit</b>       | <b>-1,650.50</b> | <b>-1,452.90</b> | <b>-1,339.40</b> | <b>-1,182.80</b> | <b>-1,094.30</b> | <b>-1,094.60</b> | <b>-1,122.70</b> |
| % of GDP             | -7.60%           | -6.10%           | -5.10%           | -4.10%           | -3.50%           | -3.20%           | -3.00%           |
| <i>Nominal GDP</i>   | 21,672.80        | 23,755.20        | 26,065.80        | 28,578.80        | 31,266.70        | 34,207.40        | 37,424.70        |

# On Public Spending Priorities

- The SONA was a rehash of the 2023 Budget Priorities Framework.

**BRIEFER ON THE 2023 BUDGET PRIORITIES FRAMEWORK**

Consistent with the 10-point policy agenda that will help accelerate the country's economic recovery from the COVID-19 pandemic, the proposed FY 2023 National Budget will prioritize health-related expenditures, disaster risk management, social security, digital economy/government, local government support, and green/industrial expenditures.

**Infrastructure Development**

- Sustain the Build, Build, Build Program
- Address risks for infrastructure projects by strengthening Plan-Program-Budget linkage and prioritizing shored-up programs, activities, and projects (PPAs) and ensure their timely completion
- Provide convergence programs for infrastructure development
- Invest in infrastructure projects that will focus on:
  - the establishment of an efficient and reliable mass public transport system;
  - the construction, renovation, and rehabilitation of subterminal facilities and better access to health care facilities;
  - the development of clean, natural gas, renewable energy, and alternative sources of energy;
  - streamlining the processes for securing permits and clearances for digital infrastructure, and empowering local governments in promoting wider use of information and communication technologies to improve both public and private services.

**Climate and Disaster Risk Resilience, and Environmental Management and Protection**

- Ensure that disaster risk resilience and climate change adaptation measures are well incorporated in PPAs
- Intensity law enforcement, protection, and management measures for various ecosystem and natural resources

**Food Safety and Security**

- Develop eco-friendly pest and disease management control strategies for better crops
- Innovate technologies that will prolong shelf-life and improve nutritional content of agriculture and fisheries products
- Strengthen the link between small farmers and livelihood and industrial-level agribusiness enterprises
- Provide more efficient transport and logistics systems for goods and services, particularly in geographically isolated and disadvantaged areas

**Enterprise Development**

- Provide continuous funding for PPPs that will support the digital transformation of the country
- Invest in making investments, such as skills, regulations, and institutions, to leverage the digital economy (e.g., predigital transformation)
- Develop digital financial institutions to ensure the country's readiness for the shift to a cashless economy

**Science, Technology, and Innovation**

- Intensity research and development of technologies and processes in the agriculture, industry, services, and health sectors
- Prioritize investments in health research institutes, such as the Virology Science and Technology Institute of the Philippines and the Philippine Genome Center, among others
- Strengthen collaboration with scientists, research centers, and institutions, especially at the international level

**Transition to Full Devolution**

- Strengthen coordination between the national government and local government units (LGUs) for better delivery of public services and goods
- Provide technical assistance to LGUs when implementing devolved functions and services

**Human Capital Development**

**Health**

- Continue to support reforms that are consistent with landmark legislations (e.g., Universal Health Care, Responsible Management of Medicines Act, Mental Health Act)
- Enhance primary health care facilities
- Promote nutrition and well-balanced diets especially during the first 1,000 days of life for children and their mothers
- Adopt a multisectoral approach to the control of childhood malnutrition to reduce longer incidence in the country
- Accelerate and expand the COVID-19 Vaccination Program, especially for adults and children
- Intensity the implementation of the Family Planning Program

**Social Protection**

- Provide education for affected individuals and households from disadvantaged sectors
- Fast-track implementation of the Community-Based Monitoring System and the Philippine Identification System Act

**Education**

- Improve the implementation of online and blended learning modalities in basic and higher education, and technical vocational education and training
- Ensure safe return to in-person schooling (i.e., vaccination, well-ventilated classrooms, availability of water, sanitation, and hygiene (WASH) facilities)
- Enhance the implementation of student financial assistance programs

**Labor and Employment**

- Upskill and reskill the labor force by implementing programs that support continuing education, digital learning, training, and employability
- Strengthen financial and technical assistance programs for workers
- Coordinate critical groups severely hit by the pandemic (e.g., workers in the tourism and agriculture sector)

# On the Public Finance: Debt, Deficit, Revenues

Table C.1  
REVENUE PROGRAM, BY SOURCE, 2020-2023  
(In Million Pesos)

| PARTICULARS   | 2020<br>Actual   | 2021<br>Program  | 2022<br>Projection | 2023<br>Projection |
|---|------------------|------------------|--------------------|--------------------|
| <b>TAX REVENUES <sup>a</sup></b>  | <b>2,904,421</b> | <b>2,714,766</b> | <b>3,125,017</b>   | <b>3,419,926</b>   |
| Taxes on Net Income and Profits   | 1,045,173        | 1,055,142        | 1,247,565          | 1,332,472          |
| Taxes on Property   | 4,854            | 9,936            | 11,809             | 13,148             |
| Taxes on Domestic Goods and Services                                      | 916,702          | 1,033,832        | 1,103,984          | 1,349,819          |
| General Sales, Turnover or VAT  | 346,960          | 378,721          | 443,977            | 506,185            |
| Selected Excises on Goods   | 296,169          | 305,218          | 346,900            | 390,674            |
| Selected Taxes on Services  | 116,817          | 127,537          | 141,565            | 151,935            |
| Taxes on the Use of Goods or Property or Permission to Perform Activities | 703              | 323              | 403                | 580                |
| Other Taxes   | 155,969          | 222,038          | 261,139            | 300,546            |
| Taxes on International Trade and Transactions                             | 537,687          | 616,749          | 671,659            | 724,487            |
| <b>NON-TAX REVENUES</b>   | <b>351,063</b>   | <b>166,237</b>   | <b>163,989</b>     | <b>166,913</b>     |
| Fees and Charges  | 23,107           | 31,228           | 41,683             | 44,184             |
| Income from Treasury Operations   | 66,714           | 21,429           | 27,692             | 24,329             |
| Interest Income on NG Deposits  | 6,329            | 1,700            | 1,650              | 1,190              |
| Interest on Advances to GOCCs   | 11,225           | 113              | 109                | 183                |
| Income from Investments   | 33,772           | 14,583           | 21,000             | 18,080             |
| Guarantee Fee   | 1,738            | 1,900            | 1,900              | 2,080              |
| Foreign Exchange Risk Cover Fee   | 1,463            | 1,400            | 1,400              | 1,400              |
| Government Service Income   | 12,185           | 1,733            | 1,633              | 1,726              |
| Fidelity Bond Premium   | 1,138            | 1,368            | 1,319              | 1,457              |
| Subscription Fee - RDS Participants                                       | 12               | 10               | 10                 | 10                 |
| Refund of Unclaimed Balances  | 57               | 79               | 79                 | 80                 |
| Service Fee on Retail Loans   | 302              | 257              | 225                | 179                |
| Other Miscellaneous Income  | 10,687           | -                | -                  | -                  |
| NG Income Collected by the BTR  | 152,963          | 53,262           | 33,484             | 33,533             |
| Dividends on Shares of Stocks   | 135,544          | 16,000           | 16,000             | 16,000             |
| NG Share from Airport Terminal Fee  | 377              | 896              | 396                | 416                |
| NG Share from PHGCCOR Income  | 16,115           | 35,011           | 16,115             | 16,115             |
| NG Share from MSA Profit  | 927              | 1,353            | 973                | 1,022              |
| Other Non-Tax Revenues  | 108,038          | 60,318           | 61,129             | 63,047             |
| Malampaya Royalties   | 19,079           | 15,718           | 14,958             | 15,524             |
| Other Non-Tax Revenues  | 88,959           | 44,599           | 46,171             | 48,423             |
| Foreign Grants  | 241              | -                | -                  | -                  |
| <b>PRIVATIZATION</b>  | <b>475</b>       | <b>500</b>       | <b>500</b>         | <b>500</b>         |
| <b>TOTAL REVENUES</b>   | <b>2,855,959</b> | <b>2,881,502</b> | <b>3,289,506</b>   | <b>3,586,439</b>   |

Source: Department of Finance  
Numbers may not add up due to rounding.

<sup>a</sup> Tax revenues include proceeds from the Comprehensive Tax Reform Program presented in Table C.5.

***“Disbursement will further increase over the medium-term from Php 5.402 trillion or 20.7 percent of our GDP in 2024 to Php 7.712 trillion or 20.6 percent of GDP in 2028”***

***“Less than 60% National Government debt-to-GDP ratio by 2025”***

- What exactly is the Marcos administration’s fiscal consolidation strategy?
- How will the government lower the debt and deficit while increasing annual budgets to fund ambitious targets without outlining new sources of financing or PFM reforms that will directly tackle fiscal sustainability?
- Fiscal impacts of Mandanas ruling and unreformed military pension system

# On the Public Sector Governance

- Without a strong commitment to good governance and anti-corruption, it will be difficult to achieve expenditures results, fiscal sustainability, and better yet, meaningful development outcomes
- The PH bureaucracy continues to face structural challenges that hinder efficiency in public service delivery such
  - Poor absorptive capacity of agencies; Symptoms include:
    - low budget utilization
    - poor planning and budgeting linkage
    - technical deficits in procurement processes
    - project implementation leading to disbursements
- Cash-based budgeting will not frontally address these problems
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# On the Public Sector Governance

- The national budget will keep growing, but gov't is not developing capacity of the bureaucracy.
  - Rightsizing may help but it is a long and tedious process
- No strong commitment to tackle corruption but e-government / e-governance may
- Transparency and accountability - FOI is not a priority
  - Will the administration open up spaces for participatory governance
  - How does it see civil society?

# Conclusion

1. The Marcos administration inherited deficits - a fiscal deficit as well as a deficit in democratic governance.
2. As a continuity president, how will he plug these deficits? Addressing the fiscal deficit is contingent on addressing the deficits in democratic governance left behind by the Duterte administration.
3. The MTFF is a set of targets. Achieving them won't necessarily translate into a more equitable and inclusive economic recovery.