The fiscal position of the National Government (NG) improved as the deficit narrowed down to P62.2 billion in 2006, the lowest in 7 years. With the implementation of fiscal policy reform laws in full gear, the NG deficit-to-gross domestic product (GDP) ratio went down to 1.04 percent, well below the 2.1 percent ceiling set for the year.

Fiscal Position

- The improvement in the fiscal position in 2006 resulted from the 20 percent increase in revenues compared to 2005 which was slightly above the target.
- Expenditure on the other hand rose by 10 percent compared to 2005, but was below the target for the year by 5.3 percent.
- Among the major revenue agencies, the Bureau of Internal Revenue (BIR) and Bureau of Customs (BoC) significantly increased its collections by P116.8 billion and P56.5 billion, respectively, in 2006. However, compared to target, the BIR missed its target by P23 billion.
- The Bureau of the Treasury (BTr) likewise performed well exceeding their target by 42 percent mainly because of higher dividends from GOCCs and interest income from deposits in the Bangko Sentral ng Pilipinas.

Table 1. Fiscal Summary (in billion pesos)

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Full Year</th>
<th>2006</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>795.7</td>
<td>974.1</td>
<td>5.6</td>
</tr>
<tr>
<td>BIR</td>
<td>535.1</td>
<td>675.3</td>
<td>-12.4</td>
</tr>
<tr>
<td>BoC</td>
<td>141.7</td>
<td>196.0</td>
<td>54.3</td>
</tr>
<tr>
<td>BTr</td>
<td>70.6</td>
<td>51.9</td>
<td>-18.7</td>
</tr>
<tr>
<td>Others*</td>
<td>48.3</td>
<td>50.9</td>
<td>2.6</td>
</tr>
<tr>
<td>Disbursements</td>
<td>88.5</td>
<td>1,099.0</td>
<td>1,040.9</td>
</tr>
</tbody>
</table>

Bureau of Internal Revenue Collection

- The BIR missed its target mainly because of collection shortfalls from income tax, excise tax and VAT.
- Income tax goal was not met due to lower volume of Treasury bills floated compared to target and the decline in interest rates. Likewise, corporate income tax collection was only P196 billion, 3 billion short of the target.
- VAT collections were lower-than-projected as GDP growth rate and inflation rate for the year were short by 0.1 and 1.3 percentage points, respectively.

Figure 1. BIR Revenues, by type of tax (in billion pesos)

Source of basic data: Bureau of Internal Revenue
Notes: The figures reported here are still tentative. These figures are net of collections from Treasury bills and bonds which the BTr collects but are remitted to BIR.
Bureau of Customs Collection

- The BoC posted a double-digit collection growth rate because of the imposition of the 12 percent VAT on petroleum products and crude oil last year.
- Total VAT collection from petroleum products and crude oil increased to P46.4 billion in 2006 from only P5.3 billion in 2005. An increase in the importation of petroleum also led to higher VAT collection.
- Revenues from import duties and excise taxes, on the other hand, declined due to the reduction in oil tariffs, from 5 percent to 3 percent, and to the lower importation of cigarettes.

Disbursements

- Total disbursements for 2006 reached P1.04 trillion.
- Interest payments accounted for 30 percent of total disbursements lower than the 32-percent share in 2005. The appreciation of the peso and lower interest rate resulted in the substantial savings for the government of around P30 billion.
- Allotment to local government units (LGUs) on the other hand, which accounted for 17 percent of total disbursements along with subsidies to GOCCs, were higher than their target.

Financing

- For 2006, the government gross borrowing amounted to P652.2 billion, 37 million higher compared to 2005. Domestic borrowings accounted for 57% of the total borrowings for the given period while foreign borrowings accounted for only 43% of the total.