

**THE PROPOSED FY 2017 NATIONAL EXPENDITURE PROGRAM:
ITS COMPOSITION, DISTRIBUTION, AND FINANCING**

A Briefing Summary on the FY 2017 National Budget
Prepared for the members of the
Senate Finance Committee

For the Presentation of the National Budget
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by

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A. MACROECONOMIC ASSUMPTIONS

The crafting of the national budget is anchored upon a set of macroeconomic parameters as shown in Table 1 below.

PARTICULARS	2010	2011	2012	2013	2014	2015	2016	2017
							Adjusted	Projected
Nominal Gross Domestic Product (GDP) (In Php Million)	9,003,480	9,708,332	10,567,336	11,548,191	12,642,736	13,307,265		
low							14,528,872	15,937,446
high							14,728,791	16,375,877
Real GDP Growth (%)	7.6	3.7	6.8	7.2	6.1	5.9	6.0-7.0	6.5-7.5
Inflation Rate (%), CPI (2006=100)	3.9	4.6	3.2	3.0	4.1	1.4	2.0-4.0	2.0-4.0
364-Day Treasury Bill Rate (%)	4.3	2.38	2.0	0.72	1.8	2.1	2.0-4.0	2.5-4.0
Foreign Exchange Rate (Php/US\$)	45.11	43.3	42.25	42.45	44.4	45.5	45-48	45-48
LIBOR Rate, 6 Months (%)	0.52	0.51	0.7	0.41	0.3	0.5	0.8-1.8	1.0-2.0
Dubai Crude Oil Price (US\$/barrel)	78.04	106.19	109.08	105.52	96.61	50.92	35-50	40-55
Exports of Goods								
Level (in US\$ Billion)	50.7	47.2	46.3	44.7	47.8	43.3	44.6	47.3
Growth Rate (%)	34.9	(6.9)	20.9	(3.6)	7.3	(13.1)	3.0	6.0
Imports of Goods								
Level (in US\$ Billion)	61.7	62.7	61.5	63.3	63.6	65	69.5	76.5
Growth Rate (%)	32.9	1.6	11.3	(3.1)	2.3	(3.2)	7.0	10.0
Gross International Reserves								
Year-End Level (in US\$ Billion)	52.4	75.3	83.8	83.2	79.5	80.7	84.8	86.3
Equivalent Months of Imports of Goods, Services and Income	9.5	11.3	11.9	11.5	10.4	10.1	9.7	8.9

Source: Budget of Expenditures and Sources of Financing, Fiscal Years 2012-2017

The country's Real Gross Domestic Product (GDP) grew by an average of 6.2 percent from fiscal years 2010 to 2015.

Real GDP growth in 2015 was the lowest in the past four years at 5.9 percent which the Aquino administration attributed to the difficult external environment, the onset of El Nino, and the challenges in government spending during the first semester of the year. However, it was the third fastest growth rate among selected Asian countries led by India at 7.5 percent, then China at 6.9 percent.

This year, the Real GDP growth target is 6.0-7.0 percent. Barring any unfavourable shocks to the economy in the second semester of this year, the full-year 2016 target is attainable given the Real GDP growth of 6.8 percent in the first quarter and 7.0 percent in the second quarter.

The second quarter GDP growth this year was driven by the Services sector which expanded by 8.4 percent, followed by the Industry sector which grew by 6.9 percent. Agriculture, however, further declined by 2.1 percent from a negative 0.1 percent in the second quarter of 2015.

Although the Aquino administration may be credited with consistently high GDP growth rates in the past six years, the challenge is how to attain a more inclusive growth that will be felt by Filipinos still living below the poverty line.

At 1.4 percent, the inflation rate in 2015 was the lowest recorded in many years. In July 2016, it was recorded at 1.9 percent, the same rate posted in June 2016, but significantly higher than the 0.8 percent noted in July 2015. In particular, higher annual increases were observed in the indices of alcoholic beverages and tobacco, furnishing, household equipment and routine maintenance of the house, and recreation and culture.

The peso-dollar rate recorded in 2015 was P45.50 to \$1, the highest in the past six years. The projected foreign exchange rate in 2016 and 2017 is at P45-48 to a dollar. A higher exchange rate increases the cost of servicing, both in terms of principal and interest payments, of our country's foreign debt.

Total Exports of Goods posted a growth of 4.1 percent in the second quarter of 2016 from 2.2 percent in 2015. Such improvement may be attributed to the following increases: Electronic Data Processing, by 28.0 percent; Telecommunications, by 70.3 percent; and Consumer Electronics, by 21.2 percent. Meanwhile Exports of Services decelerated by 15.3 percent for the same period.

While Total Imports of Goods expanded by 22.9 percent from 10.1 percent during the previous year, Imports of Services decelerated by 13.3 percent from 23.2 percent in the same period last year.

During the second quarter of 2016, a Trade Deficit of P276.6 billion resulted out of Total Exports of P966.7 billion vis-à-vis higher Total Imports of P1.243 trillion.

Gross International Reserves stood at US\$80.7Billion in 2015, equivalent to 10.1 months of imports of goods, services and income. In general, the international financial community considers three to four months' of import cover as adequate.

Table 2				
BUDGET SENSITIVITY TO MACROECONOMIC PARAMETERS, FY 2017				
(In billion pesos)				
Indicator	Change	2017		
		Revenues	Disbursements	Budget Balance 1/
Peso-to-US dollar exchange rate	P1 depreciation	9.2	2	7.2
Treasury Bill Rate (all maturities)	1 percentage point increase	0.5	3.2	-2.7
LIBOR (180-Day)	1 percentage point increase		4.6	-4.6
Inflation Rate	1 percentage point increase	18.4		18.4
Real GDP Growth Rate	1 percentage point increase	19.3		19.3
Growth Rate of Imports	1 percentage point increase	3.7		3.7

Source: 2017 BESF

1/ A negative figure in the budget balance means an increase in deficit.

Table 2 above shows the effect of certain macroeconomic parameters to revenues, disbursements, and the budget balance.

A P1 depreciation on the peso-dollar rate will increase revenues by P9.2 billion due to the higher cost of imports that will boost tax collections, increase disbursements by P2.0 billion due to bigger debt servicing costs and higher dollar-denominated expenditures, and in effect would increase the budget balance by P7.2 billion.

A 1 percentage point increase in Treasury Bill rates will increase the budget deficit by P2.7 billion. This will result from an increase in disbursements by P3.2 billion due to the higher cost of debt servicing arising from higher interest rates, which will be partially offset by a smaller P0.5 billion increase in Revenues, specifically the 20 percent withholding tax on interest income.

A percentage increase in the 180-day LIBOR will increase the budget deficit by P4.6 billion due to higher debt servicing expenditures.

A 1 percentage point increase in the Inflation Rate will increase Revenue by P18.4 billion because of the increase in prices of taxable products, thus reducing the budget deficit by the same amount.

A 1 percentage point increase in the real GDP growth rate will increase revenues and in effect, reduce our budget deficit by P19.3 billion due to higher tax collections arising out of a larger tax base.

A 1 percentage point increase in the growth rate of imports will increase revenues from taxes by P3.7 billion, thereby reducing our budget deficit by the same amount.

B. DIMENSIONS OF THE 2017 EXPENDITURE PROGRAM

The proposed national government (NG) budget of P3.350 trillion for FY 2017 is dubbed as “A Budget of Real Change, By the People and For the People” The said amount is higher by 11.6 percent or P348.2 billion over the current year’s P3.002 trillion NG total obligations. It is geared towards the achievement of the new administration’s 10-point socioeconomic development agenda, as pronounced during President Duterte first State of the Nation Address, to wit:

1. Continue and maintain current macroeconomic policies, including fiscal, monetary, and trade policies.
2. Institute progressive tax reform and more effective tax collection, indexing taxes to inflation.
3. Increase competitiveness and the ease of doing business.
4. Accelerate annual infrastructure spending to account for 5percent of GDP, with Public-Private Partnerships playing a key role.
5. Promote rural and value chain development toward increasing agricultural and rural enterprise productivity and rural tourism.
6. Ensure security of land tenure to encourage investments, and address bottlenecks in land management and titling agencies.
7. Invest in human capital development, including health and education systems, and match skills and training.
8. Promote science, technology, and the creative arts to enhance innovation and creative capacity.
9. Improve social protection programs, including the government's Conditional Cash Transfer program.
10. Strengthen implementation of the Responsible Parenthood and Reproductive Health Law.

The budget can be presented through the following dimensions:

1. By Sources of Appropriations
2. By Expense Class
3. By Cost Structure
4. By Sector
5. By Recipient Units
6. By Geographical Distribution

B.1. BY SOURCE OF APPROPRIATIONS

The P3.350 trillion budget is equivalent to 21 percent of GDP, posting a slight increase from the current year’s level of 20.7 percent. The appropriations cover for the budget will come from the following:

	(In thousand pesos)
New General appropriations	2,499,486,952
Less : Unprogrammed New Appropriations	67,500,000
Programmed New Appropriations	2,431,986,952
Automatic Appropriations	918,013,048
Total Obligations	3,350,000,000

A summary of the NG expenditure program by source of appropriation for eight (8) years is depicted in Table 3.

Particulars	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Adjusted	2017 Proposed	Variance 2016 vs 2017		Average Growth Rate
									Amount	%	
Appropriations											
New General Appropriation	915.142	953.928	1,168.533	1,261.678	1,480.483	1,763.336	2,138.605	2,499.487	360.882	16.87	15.62
Automatic Appropriation	654.405	680.119	712.979	737.395	797.998	848.499	930.695	918.013	(12.682)	(1.36)	5.01
Continuing Appropriation	131.042	184.825	163.653	188.160	110.195	289.616	269.935		(269.935)	(100.00)	8.45
Supplemental Appropriations				14.600	22.468						(6.59)
Total Available Appropriations	1,700.589	1,818.872	2,045.165	2,201.833	2,411.144	2,901.451	3,339.235	3,417.500	78.265	2.34	10.62
Less: Unused Appropriations/ Unobligated Allotments / Unprogrammed Appropriations	227.611	238.856	216.183	203.458	392.081	486.811	337.435	67.500	(269.935)	(80.00)	(0.61)
Total Obligations	1,472.978	1,580.016	1,828.982	1,998.375	2,019.063	2,414.640	3,001.800	3,350.000	348.200	11.60	12.69
% of GDP	16.4	16.3	17.3	17.3	16.0	18.1	20.7	21.0			

Sources: NEP FY2017 (Volume I) and Time Series Budgetary Tables

For 2017, Congress is asked to pass P2.499 trillion in new appropriations, of which P2.432 trillion will be programmed and shall be considered as part of the 2017 obligation budget. It will account for 73 percent of the total obligation budget and 97.2 percent of the total new appropriations.

The remaining P67.5 billion or 2.8 percent is considered as unprogrammed appropriation for the year 2017. Unprogrammed Appropriation is part of the New General Appropriations that has to be legislated by Congress but is not included in the computation of the total obligation/budget. The said appropriation is considered a stand by appropriations which may only be used if the conditions set forth for its release have been complied with.

Automatic Appropriation, which no longer need legislative approval since it has been previously authorized under separate laws, will decrease to P918.013 billion or P12.682 billion lower than the current amount of P930.695 billion. Its share to the total obligation budget will decline from 31.0 percent to 27.40 percent. This is due to the substantial drop in interest payments.

For FY 2017, more than one-half (53.04 percent or P486.885 billion) of Automatic Appropriations will be earmarked for Internal Revenue Allotment (IRA). IRA is the share of

local government units (LGUs), aggregately corresponding to 40 percent of the national internal revenue taxes based on the collection of the third fiscal year preceding the current fiscal year. The share of each local LGU is determined pursuant to the provisions of the Local Government Code. The IRA at P486.885 billion will allot LGUs an additional P58.266 billion over its 2016 IRA allocation of P428.62 billion. The IRA will grow by 13.59 percent which is much higher than the growth of the national budget of 11.6 percent.

Interest Payments on NG Debts of P334.88 billion is 36.48 percent of the automatic appropriation and will reflect a decrease of P57.92 billion from the FY 2016 figure of P392.797 billion.

The remaining components of the automatic appropriations will be for Retirement and Life Insurance Premiums, Customs Duties and Taxes including Tax Expenditures, Net Lending, and Special Account. Details of automatically appropriated items from FY 2014 to FY 2017 are presented in Table 4.

Particulars	2014 Actual	2015 Actual	2016 Adjusted	2017 Proposed	Variance 2016 vs. 2017	
					Amount	%
Retirement and Life Insurance Premiums	31,665,061	32,666,134	31,240,142	37,870,798	6,630,656	21.22
Interest Payment on NG Debts	352,652,000	372,863,000	392,797,000	334,877,000	(57,920,000)	(14.75)
Internal Revenue Allotment	341,544,726	389,860,429	428,619,518	486,885,005	58,265,487	13.59
Pension under R.A. No. 2087 and R.A. No. 5059	288	331	331	480	149	45.02
Grant Proceeds	3,609,326	1,952,321	64,410	0	(64,410)	(100.00)
Customs Duties and Taxes, including Tax Expenditures	29,643,307	18,148,421	25,475,000	19,500,000	(5,975,000)	(23.45)
Net Lending	13,395,000	9,696,000	26,500,000	16,765,165	(9,734,835)	(36.74)
Special Account	23,823,321	23,261,194	25,999,003	22,114,600	(3,884,403)	(14.94)
Military Camps Sales Proceeds Fund	1,664,578	51,174				
Total Automatic Appropriations	797,997,607	848,499,004	930,695,404	918,013,048	(12,682,356)	(1.36)

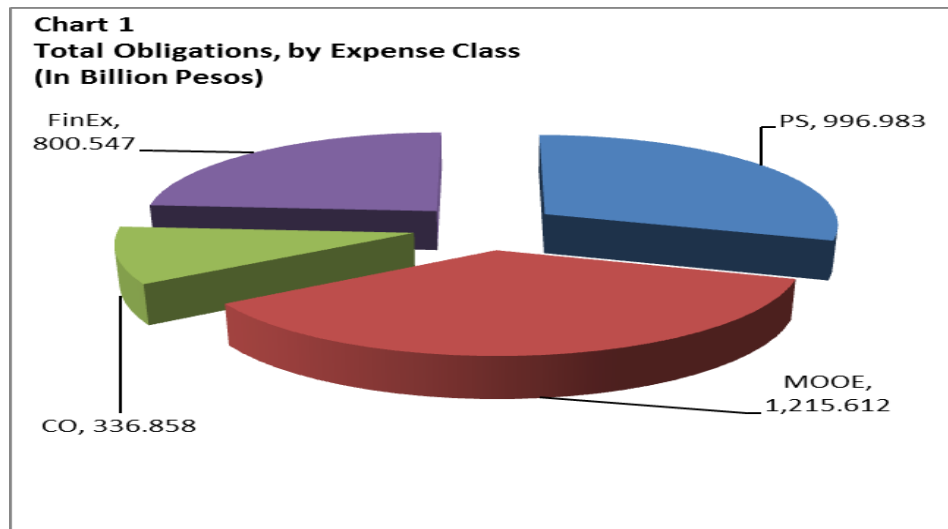
Source: NEP FY2017

B.2. BY EXPENSE CLASS

The FY 2017 budget of P3.350 trillion, classified according to major expenditures, is distributed as follows:

- Personal Services (PS), P996.983 billion
- Maintenance and Other Operating Expenses (MOOE), P1.216 trillion
- Financial Expenses (FinEx), P336.858 billion
- Capital Outlays (CO), P800.546 billion

The percentage share of the above expense classes is indicated on the pie chart below:



Current Operating Expenditures (COE)—PS, MOOE and FinEx—will get the biggest portion of the budget pie with a combined share of 76.10 percent.

Personal Services (PS) will comprise 29.76 percent of the NG’s expenditure program and will increase by P185.188 billion or 22.81 percent as against the current year’s allocation. The growth in PS is primarily due to the implementation of the 2nd tranche of the salary adjustments for civil servants and increase in allowances of military and uniformed personnel as authorized under Executive Order No. 201. The creation of new positions, filling up of vacant positions, and provision for other compensation benefits will also explain the substantial increase in Personal Services.

Maintenance and Other Operating Expenses (MOOE) will grow by P112.479 billion or 10.20 percent in FY 2017 due to the growth of the major social and economic programs, such as the basic education of the Department of Education (DepEd), routine maintenance of the Department of Public Works and Highways (DPWH), the conditional cash transfer (CCT) and social pension for indigent senior citizens of the Department of Social Welfare and Development (DSWD) and considerable support for the Government Owned and Controlled Corporations (GOCCs).

FinEx refers to management supervision/trusteeship fees, interest expenses, guarantee fees, bank charges, commitment fees and other financial charges incurred in owning or borrowing an asset property. FinEx will have an allocation of P336.858 billion for FY2017, of which P334.877 billion is for the Interest Payment on NG Debts.

Capital Outlays (CO) will constitute the remaining balance of 23.90 percent of the total budget and will register a growth of P108.134 billion or 15.62 percent as against the current allocation of P692.413 billion. The substantial increase is primarily due to the infrastructure requirements for the K-12 program, irrigation and transport and road infrastructure programs of the government.

A historical trend of the budget by expense class from 2010 to 2017 is shown in the following table:

Table 5
Expenditure Program by Expense Class, 2010-2017
(In Billion Pesos)

Particulars	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Adjusted	2017 Proposed	Per Cent Distribution			Variance (2016 vs. 2017)		Average Growth Rate
									2015	2016	2017	Amount	%	
Personal Services	457.560	502.956	556.144	611.752	635.598	682.619	811.794	996.983	28.270	27.044	29.761	185.189	22.812	11.932
Maintenance and Other Operating Expenses	748.389	808.426	859.465	920.032	665.555	933.553	1,103.134	1,215.612	38.662	36.749	36.287	112.478	10.196	8.907
Financial Expenses					322.433	311.115	394.459	336.858	12.885	13.141	10.055	(57.601)	(14.603)	2.892
Capital Outlays	267.029	268.635	413.373	466.592	395.477	487.353	692.413	800.547	20.183	23.067	23.897	108.134	15.617	19.005
Total	1,472.978	1,580.017	1,828.982	1,998.376	2,019.063	2,414.640	3,001.800	3,350.000	100.000	100.000	100.000	348.200	11.600	12.690
% Increase		7.267	15.757	9.262	1.035	19.592	24.317	11.600						

Source: BESF FY 2017 and Time Series Budgetary Tables

B.2.a. INFRASTRUCTURE OUTLAYS

In the 2015-2016 World Economic Forum Global Competitiveness Report, the Philippines ranked 90th out of the 140 countries with respect to infrastructure. Although the Philippines is on the top half rank of the overall Global Competitiveness Index rankings (47th), the country's overall infrastructure quality is ranked at 106th.

To address the deficiency in infrastructure and to boost economic growth, the government will continue to increase infrastructure spending from P756.441 billion or 5.21 percent of GDP in 2016 to P860.653 billion or 5.4 percent of GDP in 2017, an improvement from the 2015 infrastructure spending of P575.666 billion or 4.33 percent of GDP.

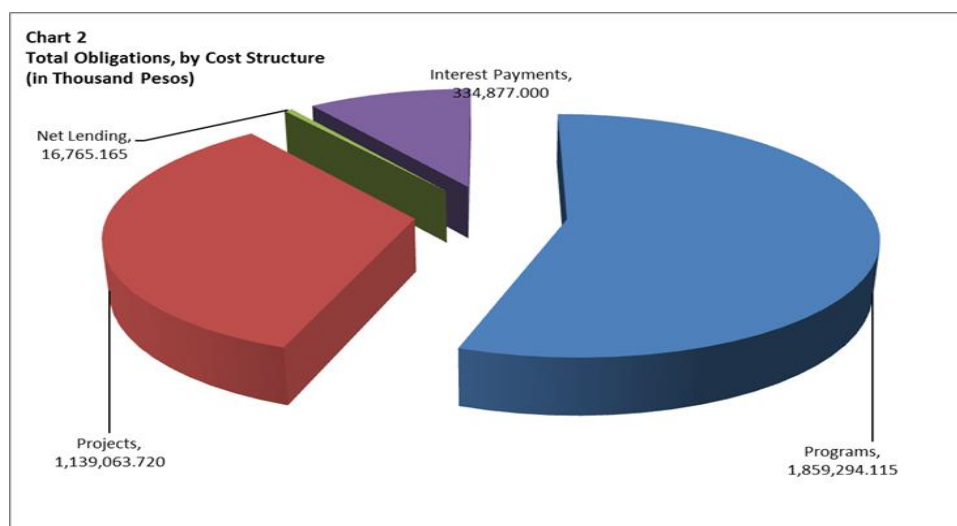
The largest portion of the infrastructure outlays will be for road networks with P328.181 billion (38.13 percent). On the other hand, school buildings will have a 14.48 percent share in the total infrastructure budget with P124.619 billion.

Table 6			
Infrastructure Outlays, FY 2015 - 2017			
(In Thousand Pesos)			
Particulars	2015	2016	2017
Buildings	21,260,728	28,611,145	27,165,176
School Buildings	72,469,005	91,290,083	124,618,834
Hospitals and Health Centers	9,445,220	19,212,364	10,029,662
Markets			500
Hostels and Dormitories	116,212	151,500	1,062,167
Ground Water Monitoring Stations	6,908	15,200	15,600
Other Structures	2,116,052	3,385,567	6,083,755
Road Networks	223,480,702	298,081,740	328,180,765
Flood Control Systems	48,331,504	69,013,702	75,821,898
Sewer Systems	1,098	10,000	44,800
Water Supply Systems	6,797,894	7,729,065	12,595,963
Power Supply Systems	7,543,035	6,453,851	1,949,795
Communication Network	2,873,024	2,758,702	3,508,096
Seaport Systems	2,654,994	1,806,845	2,667,852
Airport System	12,251,131	9,582,868	5,713,534
Parks, Plazas and Monuments	5,470	13,858,074	76,484
Irrigation Systems	26,531,987	23,588,631	26,025,904
Other Infrastructure Assets	44,676,637	49,442,426	78,774,083
Aquaculture Structures	125,730	3,600	13,496
Reforestation Projects	7,215,828	7,553,282	9,034,503
Other Land Improvements	1,064,778	2,913,214	1,512,886
Internal Revenue Allotment	77,927,086	85,723,904	97,377,001
Local Government Support Fund	3,246,330	19,076,671	24,622,129
National Disaster Risk Reduction and Management	5,524,519	16,178,660	23,758,180
TOTAL	575,665,872	756,441,094	860,653,063

Source: BESF FY 2017

B.3. BY COST STRUCTURE

About 56 percent or P1.859 trillion of the proposed budget for FY 2017 will be used to finance the Programs of the national government (NG). Allocation for locally funded and foreign assisted projects, on the other hand, will account for P1.139 trillion or 34 percent of the whole budget pie. Debt Service-Interest Payments will have a share of 10 percent while Net Lending, the advances by the NG for the servicing of government guaranteed corporate debt during the year (net of repayments on such advances) including loans outlays or proceeds from program loans relent to government corporations, will obtain the smallest portion of 0.50 percent. The following chart highlights this distribution:



Net of interest payments and net lending, the productive portion of the budget, which are the programs and projects, will increase by P415.855 billion or 16.10 percent.

General Overhead (GASS and STO) will amount to P50.996 billion or 24.60 percent more than the FY 2016 figure of P207.307 billion. The FY 2017 total allocation for Operations will grow by 22.63 percent or P295.448 billion.

Allocation for projects will register a growth of P69.412 billion or 6.49 percent. The bulk of the projects will be locally funded in the amount of P1.096 trillion while projects to be funded from foreign borrowing/grants will account for only 1.28 percent. The cost structure of the budget for a four (4) year period from 2014 to 2017 is shown in Table 7.

Table 7
Expenditure Program by Cost Structure, 2014-2017

Particulars	Amount (in million pesos)				Per Cent Distribution			2016 vs 2017 Variance	
	2014	2015	2016	2017	2015	2016	2017	Amount	%
Programs	1,212,143.674	1,352,522.964	1,512,850.844	1,859,294.115	56.01	50.40	55.50	346,443.271	22.90
General Overhead	244,981.258	210,993.718	207,307.347	258,302.955	8.74	6.91	7.71	50,995.608	24.60
General Administration & Support	211,145.380	174,904.333	142,777.149	165,222.424	7.24	4.76	4.93	22,445.275	15.72
Support to Operations	33,835.878	36,089.385	64,530.198	93,080.531	1.49	2.15	2.78	28,550.333	44.24
Operations	967,162.416	1,141,529.246	1,305,543.497	1,600,991.160	47.28	43.49	47.79	295,447.663	22.63
Projects	472,338.391	743,057.154	1,069,652.156	1,139,063.720	30.77	35.63	34.00	69,411.564	6.49
Locally-Funded Projects	460,155.476	683,708.618	1,017,887.811	1,096,219.665	28.32	33.91	32.72	78,331.854	7.70
Foreign- Assisted Projects	12,182.915	59,348.536	51,764.345	42,844.055	2.46	1.72	1.28	(8,920.290)	(17.23)
Total Obligations	1,684,482.065	2,095,580.118	2,582,503.000	2,998,357.835	86.79	86.03	89.50	415,854.835	16.10
Net Lending	13,395.000	9,696.000	26,500.000	16,765.165	0.40	0.88	0.50	(9,734.835)	(36.74)
Interest Payments	321,185.000	309,364.000	392,797.000	334,877.000	12.81	13.09	10.00	(57,920.000)	(14.75)
TOTAL	2,019,062.065	2,414,640.118	3,001,800.000	3,350,000.000	100.00	100.00	100.00	348,200.000	11.60

Source: BESF FY 2017

B.4. BY SECTOR

The Social Services Sector will continue to have the biggest share of the budget pie at 40.14 percent which can be attributed to the substantial allocation for health, education, housing programs, as well as social welfare and employment. Economic Services Sector will come second with 27.58 percent. Both sectors consistently acquire the largest portion of the expenditure program. The Social Services and Economic Services Sectors will exhibit an increase of P224.995 billion (20.09 percent) and P89.925 billion (10.78 percent), respectively.

The sub sector for education, culture and manpower development and the sub sector for social security, welfare and employment will constitute the bulk of the social services sector with a budget of P699.950 billion and P295.228 billion, respectively.

On the other hand, the sub-sector for communications, roads and other transport will receive P480.265 billion or 52 percent of the economic services sector, and will include the enhancement of industrial/agricultural production capacities, like the development of natural resources, promotion of trade and industry, and the setting up of infrastructure and utilities.

General Public Services Sector will increase by P83.860 billion or 16.84 percent while the Defense Sector will grow by 13.07 percent which will be used to strengthen domestic security.

Debt service and net lending will both reflect a decline of 14.75 percent and 36.74 percent, respectively.

B.5. BY RECIPIENT UNITS

Among recipient units, the national government agencies will continue to get the lion's share at P2.312 trillion or 69 percent of the total obligation budget. This will reflect a P320.6 billion increase primarily due to the increase in personal services of P185.2 billion.

Particulars	ACTUAL	Adjusted	Proposed		2017 vs. 2016	
	2015	2016	2017	% Share	Amount	%
NGA's	1,553.7	1,991.4	2,312.1	69.0	320.6	16.10
GOCC's	133.0	105.3	131.5	3.9	26.2	24.89
LGU's	408.8	485.8	554.9	16.6	69.1	14.21
Creditors	319.1	419.3	351.6	10.5	(67.7)	(16.14)
Interest Payments	309.4	392.8	334.9	10.0	(57.9)	(14.75)
Net Lending	9.7	26.5	16.8	0.5	(9.7)	(36.75)
TOTAL	2,414.6	3,001.8	3,350.0	100.00	348.2	11.60

Source: BESF, FY 2017

Subsidies and equity contributions to GOCCs will amount to P131.5 billion, which correspond to 3.9 percent of the obligation budget and will post an increase of P26.2 billion. The increase is due to the change in the presentation of the allocation for the health insurance premiums of indigents which is now directly appropriated under the Philippine Health Insurance Corporation, the implementing entity, instead of the Department of Health.

The increase of P69.1 billion in the allocation to local government units (LGUs) will bring the 2017 budget for LGUs to P554.9 billion. This is due to the growth in internal revenue tax collections which allocates 40 percent of its collections to LGUs in the form of IRA and the P15.6 billion or 81.9 percent growth in local government support fund.

The 16 percent or P67.7 billion decrease in interest payments and net lending will bring down the creditors' share to the budget from 14 percent to 10 percent. In view of the slide in the share of the creditors to the budget, a substantial amount was shifted to the productive portion of the budget such as infrastructures, repairs and maintenance of government facilities, increase in social benefits and personal services.

B.6. BY GEOGRAPHICAL DISTRIBUTION

Particulars	2017		2015 Population	
	Amount	% share	Population	%
Nationwide	325.36	11.00		
Central Office	681.77	23.05		
Regional	1,950.09	65.94	100,979,303	100.00
NCR	519.07	17.55	12,877,253	12.75
Region I	87.86	2.97	5,026,128	4.98
CAR	44.50	1.50	1,722,006	1.71
Region II	70.50	2.38	3,451,410	3.42
Region III	154.65	5.23	11,218,177	11.11
Region IV				
Region IV-A	164.70	5.57	14,414,774	14.27
Region IV-B	66.88	2.26	2,963,360	2.93
Region V	106.80	3.61	5,796,989	5.74
Sub-total, Luzon	1,214.96	41.08	57,470,097	56.91
Region VI	113.89	3.85	4,477,247	4.43
Region VII	109.71	3.71	6,041,903	5.98
Negros Island Region			4,414,131	4.37
Region VIII	95.54	3.23	4,440,150	4.40
Sub-total, Visayas	319.14	10.79	19,373,431	19.19
Region IX	75.67	2.56	3,629,783	3.59
Region X	81.02	2.74	4,689,302	4.64
Region XI	72.75	2.46	4,893,318	4.85
Region XII	81.43	2.75	4,545,276	4.50
CARAGA	56.90	1.92	2,596,709	2.57
ARMM	48.22	1.63	3,781,387	3.74
Sub-total, Mindanao	415.99	14.07	24,135,775	23.90
Filipinos in Embassies, Cosulates and Mission Aborad			2,134	0.00
TOTAL, net of interest	2,957.22	100.00	100,981,437	100.00
Interest Payment	392.80			
TOTAL	3,350.02			

Source: Philippine Statistics Authority. (2016, May 19). Highlights of the Philippine Population 2015 Census of Population. Retrieved August 23, 2016

The 2017 budget of P3.350 trillion net of interest payment of P392.8 billion amounts to P2.957 trillion. P1.950 trillion or 66 percent will be distributed among 18 regions, P681.77 billion or 23 percent for the central office and P325.36 billion or 11 percent for nationwide. A portion of the allocation under nationwide and central office will eventually be distributed to the various regions during the budget execution.

Of the three (3) main island groups of the country, Luzon which has the biggest population of P57.47 million will still get the biggest allocation of P1.215 trillion more than the combined allocation for Visayas of P319.14 billion and Mindanao of P415.99 billion or a total of P735.13 billion. NCR which has the big infrastructure ticket items will get the highest

allocation among regions. Regions IV- A, the most populous region, with a population of 14.41 million and Region III with a population of 11.22 million will get P164.7 billion and P154.65 billion, respectively.

C. TOP TEN DEPARTMENTS, FY 2017

Department	2016		2017		2017 vs. 2016	
	Amount	Rank	Regular	Rank	Amount	%
Department of Education	433.4	1	567.6	1	134.2	31.0
Department of Public Works and Highways	397.1	2	458.6	2	61.5	15.5
Department of Interior and Local Government	125.4	4	150.1	3	24.7	19.7
Department of Health	125.0	5	144.2	4	19.2	15.4
Department of National Defense	117.7	3	134.5	5	16.8	14.3
Department of Social Welfare and Development	110.9	6	129.9	6	19.0	17.1
Department of Transportation	44.3	8	55.5	7	11.2	25.2
Department of Agriculture	48.9	7	45.3	8	(3.6)	(7.4)
Department of Environment & Natural Resources	22.3	10	29.4	9	7.1	31.8
Department of Finance	20.2	15	23.0	10	2.8	13.9
Top Ten	1,445.2		1,738.1		292.9	20.3
Total NG Budget	3,001.8		3,350.0		348.2	11.6
Top Ten as % of NG Budget	48.1		51.9			
<i>Source: FY 2017 NEP</i>						

The budget of all government agencies will include salary increase of civil servants and allowances of military and uniformed personnel as provided under EO 201. The top ten departments are as follows:

- The Department of Education (DepEd) has maintained its position as the largest recipient of the national budget since the constitution (Art. XIV, Sec.5 p5) itself provides that education should get the highest budget allocation. The substantial increase is accounted for by the implementation of the salary adjustment and allocation for the implementation of senior high school.
- The Department of Public Works and Highways (DPWH) will continue to occupy the 2nd place. The DPWH, being the premier infrastructure agency of the National government, will get a big chunk of the total increase in infrastructure outlay for 2017 equivalent to P56.11 billion in additional infrastructure projects.
- The Department of Interior and Local Government (DILG) which ranked 5th in 2016 will now rank third. This is due to the creation of positions for uniformed personnel under DILG, increase in medicine allowance from P5 per day to P10 per day and subsistence allowances of inmates for the projected increase in the population of inmates, increase in allowances of military and uniformed personnel, including 20

kilos of rice per month. A substantial amount is also provided for the construction of jail buildings and fire stations.

- The Department of Health (DOH), including the subsidy for Philhealth to cover the insurance premiums of indigents and senior citizens will maintain its ranking at 4th place. Although the health facilities enhancement program was reduced, this will be offset by the allocation for the construction of treatment and rehabilitation centers and additional spending for medical assistance, immunization, family health and responsible parenting and disease prevention.
- The Department of National Defense (DND) budgetary ranking will slide down from the 3rd place in 2016 to 5th place in 2017. The P134.5 billion budget of the DND will cover additional allowance for military personnel under EO 201, including 20 kilos per month of rice subsidy. A bigger amount for ammunition and Intelligence fund is also provided. The engineering brigade of the Philippine Army will be activated and will get P1.3 billion.
- Ranked sixth (6th) is the budget allotted for the Department of Social Welfare and Development (DSWD) which will continue to implement the conditional cash transfer (CCT) program. The number of beneficiaries for CCT will remain the same at 4.6 million of which 3 million regular CCT beneficiaries will receive 20 kilos per month in rice subsidies. Additional fund is also provided for all indigent senior citizens.
- The Department of Transportation (DoTr) budget of P55.5 billion is P11.2 billion higher than its 2016 allocation and will now rank 7th among the departments. This will cover additional funding for railways, roads, and Road Transport IT Infrastructure Project. Its MOOE will include allocation for STRADCOM payable in the amount of P1.829 billion.
- Since the budget of the Department of Agriculture of P45.3 billion will reflect a reduction of P3.6 billion, it will slide down to the 8th slot among the top ten departments. The decrease in the DA's budget is due to the transfer of the allocation for PAYapa at MASaganang PamayaNAn (PAMANA) Program projects to the Office of the Presidential Adviser on Peace Process (OPPAP) and the deletion of Bottom-Up Budgeting (BUB) projects. However, the allocation for Extension Support, Education and Training will get a substantial increase.
- The ninth (9th) place among the executive departments is for the budget of the Department of Environment and Natural Resources (DENR). The P29.371 billion budget of the DENR will mostly support the following increase in personnel services; implementation of forest protection plan; Ecotourism Development Program; Philippine Islands Inventory Project; and the National Greening Program.

- Ranked in tenth (10th) place will be the budget for the Department of Finance (DOF) which will cover the construction of new buildings of the BOC and the BIR and for the purchase of speedboat for the anti-smuggling campaign. Included also in the DOF budget is the allocation for capital or quota subscription and revaluation or maintenance of value to foreign financial institutions that has been reviewed by the DFA and the International Commitments Fund Panel, which was carved out from the allocation of the International Commitment Fund under the Department of Foreign Affairs (DFA).

D. OFF-BUDGET ACCOUNTS

Aside from the P3.350 trillion budget in the FY 2017, the NG is expected to spend an additional amount of P48.977 billion or 78.32 percent of the projected receipts of P62.535 billion. These are called Off-budgetary funds or receipts which are authorized to be deposited with government financial institutions for expenditure items which are not part of the National Expenditure Program (NEP). These are categorized into:

- retained income/receipts
- revolving funds, and
- receipts from borrowing from the BTr.

Included under these Off-Budget Funds/Items are: (a) income from hostels, seminar fees which shall be used for MOOE of hostels and expenses in the conduct of seminars, (b) hospital income which will be used to augment its MOOE and for the purchase of additional equipment, (c) fees in excess of the regular passport fees collected due to special consideration or issuance beyond regular office hours to be used for PERA, wages and overtime pay, and (d) internally generated income of SUCS to be used for PS, MOOE and CO.

E. NATIONAL GOVERNMENT REVENUES

E.1. 2017 REVENUE TARGETS

The 2017 revenue program of P2.482 trillion will partly finance the P2.960 trillion government cash requirements. To achieve this, government collections must grow by 10 percent over the adjusted 2016 level of P2.257 trillion.

Table 11								
NG Revenues, FY 2010-2017								
(Amounts In Billion Pesos)								
Particulars	2010	2011	2012	2013	2014	2015	2016	2017
Total Revenues	1,207.93	1,359.94	1,534.93	1,716.09	1,908.53	2,108.96	2,256.72	2,481.54
% of GDP	13.42	14.01	14.53	14.87	15.10	15.85	15.53	15.57
Tax Revenues	1,093.64	1,202.07	1,361.08	1,535.70	1,720.12	1,815.48	2,044.00	2,313.02
% of GDP	12.15	12.38	12.89	13.30	13.61	13.64	14.07	14.51
BIR	822.62	924.15	1,057.92	1,216.66	1,334.76	1,433.30	1,620.00	1,829.25
BOC	259.24	265.11	289.87	304.93	369.28	367.53	409.00	467.90
Other Offices	11.78	12.81	13.30	14.11	16.08	14.65	15.00	15.87
Non-Tax Revenues	113.37	156.95	165.50	177.46	186.47	230.70	210.72	166.53
Privatization	0.91	0.93	8.35	2.94	1.94	62.8	2.0	2.0
GDP Nominal	9,003.480	9,708.332	10,561.089	11,542.286	12,642.736	13,307.265	14,528.872	15,937.446
Source: 2017 BESF, (2015-2017 data)								
DBM Time Series Handbook (2010-2014 data)								

The revenue target was originally placed at P3.040 trillion, which is 18.5 percent of the projected P16.457 trillion GDP, but was slashed to a more realistic level of P2.482 trillion by the current administration. This revised revenue target is 15.6 percent of the downscaled GDP target of P15.937 trillion. Tax, non-tax revenue and proceeds from privatization comprise the NG revenue targets.

Tax revenues are projected to reach P2.313 trillion which is equivalent to a tax effort of 14.5 percent. The Bureau of Internal Revenue (BIR) is tasked to collect P1.829 trillion of the projected tax revenues, while the Bureau of Customs (BOC) will collect the remaining 20 percent or P467.9 billion.

Non-tax revenues which include fees and charges, income from treasury operations and NG income collected by the Bureau of Treasury (BTr) such as dividends from GOCCs, NG share from airport terminal fees, PAGCOR income, and MIAA profit are expected to reach P166.5 billion. This is P44.2 billion less than the 2016 projections of P210.7 billion. The Budget of Expenditures and Sources of Financing (BESF) shows that most of the non-tax revenue sources for 2017 are projected to decrease.

The above table shows that non-tax revenues have consistently increased and the fact that the 1st semester non-tax revenue collections have reached 78 percent of its target indicates that the 2016 projection will be exceeded. Accordingly, the 2017 non tax revenue targets are unusually low.

The 2017 projected revenue effort of 15.6 percent reflects a slight increase compared with the revenue effort of 2016 of 15.5 percent, but compared with 2015, it is .2 percentage (0.2 percent) lower than the 2015 tax effort of 15.8 percent.

The NG intends to submit a comprehensive tax reform program which proposes a reduction in the corporate income tax from 30 percent to 25 percent and for the revision of the schedule of rates of personal income tax from 32 percent to 25 percent which will both result to revenue losses.

The said measures are expected to expand economic activities due to an increase in the take-home pay of workers, giving them more money to spend. It also expects to improve business climate that will encourage investment.

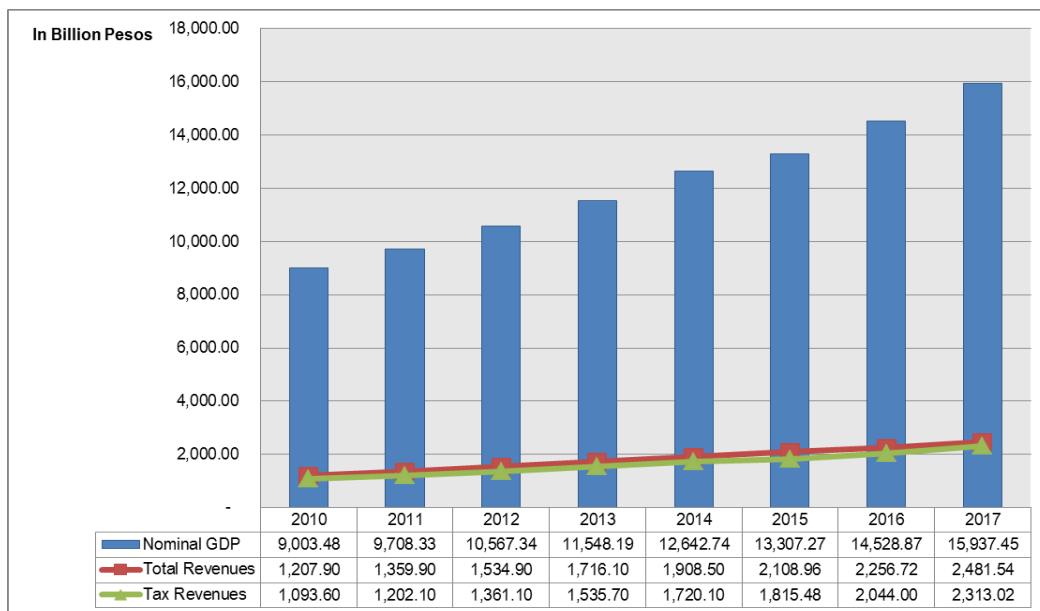
The forgone revenues will be compensated by accompanying proposals to index excise tax on oil products to inflation, rationalization of fiscal incentives and to expand the value-added tax base.

In addition, administrative measures will also be adopted to include the improvement of the systems and capacity of the BIR and the BOC. To plug loopholes that abet tax evasion, the NG will propose that the Bank Secrecy Law be relaxed while the Anti-Money Laundering Act has to be amended to make tax evasion a predicate crime to money laundering.

The effects of these proposals on the revenue targets are not inputted in the 2017 revenue projections. Thus, if these measures will be passed in 2017, it will affect the revenue targets.

For government to maintain its fiscal position, Congress must ensure that it will pass the revenue measures that will offset whatever revenue losses will result from the proposal to reduce income taxes. Increase in deficit will mean increase in borrowings which will impact on the interest payments.

Graph 1
Revenue Growth 2010-2017



Source: 2017 BESF
DBM Time Series

E.2. REVENUE PERFORMANCE (2015 AND 1ST SEMESTER OF 2016)

Revenue collections for 2015 reached P2.109 trillion which is equivalent to a revenue effort of 15.9 percent. Tax revenue collections reached P1.815 trillion while non-tax revenues will amount to P230.7 billion. Both BIR and BOC missed its adjusted revenue targets of P1.674 trillion and P436.6 billion by 14.4 percent and 15.8 percent, respectively. Non-tax revenues, on the other hand, exceeded its target by 58.45 percent due to the higher than expected dividend collection, income from treasury operation, and other non-tax revenue items.

For 2016, the first semester revenue performance amounted to P1.101 trillion or 40.82 percent of the whole-year revenue. Of this amount, tax revenue collection accounts for P982.04 billion or 89 percent and is equivalent to 38.61 percent of its whole-year target, indicating that the tax revenue collecting agencies will again miss their targets.

Non-revenue tax collections amounted to P118.47 billion which is equivalent to 78 percent of its whole-year target, while Proceeds from privatization have reached P745 million.

Graph 1 illustrates the actual revenue growth from 2010 – 2017 which averages 11.09 percent. The first semester 2016 revenue performance indicates that the original projected growth rate of 27.9 percent is not attainable. However, the downscaled 2016 revenue target of P2.257 trillion, which reflect a 7 percent growth rate over the 2015 actual revenue, is way below the average growth rate of 11.09 percent for the past five (5) years.

F. CASH DISBURSEMENT PROGRAM

In determining the cash disbursement program, the computation will include the prior years' obligations authorized under previous appropriation laws which have not been paid and the proposed 2017 expenditures that will be obligated and will require cash payment during the year. Expenditures for 2017 which will not be paid during the year will impact on the cash disbursement of the following year.

Particulars	2010	2011	2012	2013	2014	2015	2016	2017
(Amounts In Billion Pesos)								
Total Revenues	1,207.93	1,359.94	1,534.93	1,716.09	1,908.53	2,108.96	2,256.72	2,481.54
Disbursements	1,522.38	1,557.70	1,777.76	1,880.16	1,981.62	2,230.65	2,645.59	2,959.67
% of GDP	16.91	16.04	16.83	16.29	15.67	16.76	18.21	18.57
Surplus/(Deficit)	(314.45)	(197.76)	(242.83)	(164.07)	(73.09)	(121.69)	(388.87)	(478.13)
% of GDP	(3.49)	(2.04)	(2.30)	(1.42)	(0.58)	(0.91)	(2.68)	(3.00)
GDP Nominal	9,003.480	9,708.332	10,561.089	11,542.286	12,642.736	13,307.265	14,528.872	15,937.446
Source: 2017 BESF, (2015-2017 data)								
DBM Time Series Handbook (2010-2014 data)								

Thus, for 2017, the government must raise P2.960 trillion, through revenue collections and borrowings, to meet its cash requirements arising from previous years' obligations and a portion of the 2017 obligations. This will reflect an increase of P314.10 billion or 12 percent from the 2016 disbursement level of P2.646 trillion and as a percentage of GDP, it will increase from 18.2 percent in 2016 to 18.6 percent in 2017. Disbursements for 2016 and 2017 are distributed as follows:

Table 13
Disbursement by Expense Class, FY 2015-2017

Particulars	2015	2016	2017
COE	1,784.91	1,973.05	2,208.53
CO	436.04	655.71	734.37
NL	9.70	16.82	16.77
Total	2,230.65	2,645.58	2,959.67
GDP Nominal	13,307.265	14,528.872	15,937.446
% of GDP	16.76	18.21	18.57

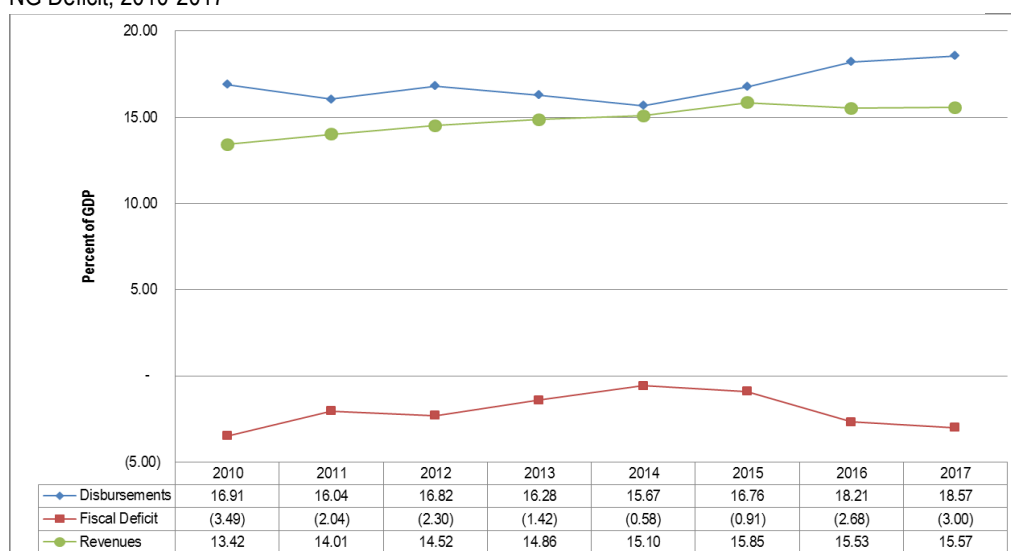
Source: 2017 NEP

Current Operating Expenses, which includes payment of Personnel Services, interest payments, allotment to LGUs and MOOE will account for 74.6 percent of the cash disbursements while Capital Outlays account for 24.8 percent. This percentage distribution among expense class is the same level with the 2016 disbursement program.

G. NATIONAL GOVERNMENT DEFICIT

Since the projected revenue of P2.482 trillion is not sufficient to cover the cash disbursement requirements of P2.960 trillion, the government will incur a deficit of P478.1 billion which corresponds to 3 percent of GDP.

Graph 2
NG Deficit, 2010-2017



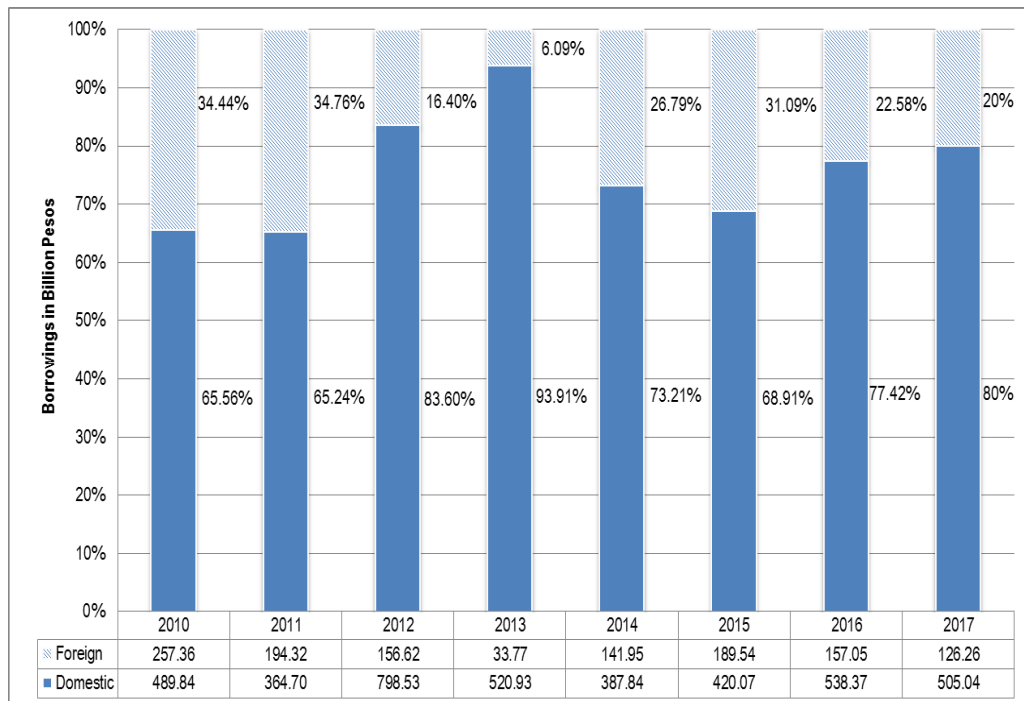
Source: 2027 BESF
DBM Time Series

The deficit of 3 percent to GDP is the highest since 2011. The lower revenue growth at 10 percent for 2017 (average growth for the past five years is 11.09 percent) and accelerated disbursements, which can be partly attributed to the inclusion of a provision in the 2017 proposed NEP that limits the validity of the new appropriations to one year will explain the higher deficit.

H. NATIONAL GOVERNMENT BORROWING PROGRAM

To finance the deficit of P478.1 billion and to pay maturing debts, the NG will resort to borrowings from foreign and domestic sources. For 2017, the government will continue to be biased in favor of domestic sources which will account for 80 percent of the borrowings while foreign sources will provide for the remaining 20 percent. The government explains that preference for domestic borrowings will reduce the country’s exposure to foreign exchange volatility.

Graph 3
Borrowing Mix, FY 2010-2017



Source: 2017 BESF
DBM Time Series

Domestic borrowings will amount to P505.04 billion which will be sourced from the issuance of Treasury bills of P40 billion and Treasury bonds of P465.04 billion. Of this amount, P5.80 billion will be used to pay maturing debts. The balance of P499.23 billion will form part of the financing source to cover the 2017 deficit of the government.

Particulars	2010	2011	2012	2013	2014	2015	2016	2017	Variance 2016-2015	
									Amount	%
Gross Borrowings	747.201	559.017	955.148	554.701	529.787	609.610	695.424	631.294	(64.130)	(9.222)
Domestic	489.844	364.698	798.527	520.934	387.838	420.072	538.373	505.035	(33.338)	(6.192)
Foreign	257.357	194.319	156.621	33.767	141.949	189.538	157.051	126.259	(30.792)	(19.606)
Less: Amortizations	395.555	443.754	416.976	235.583	354.548	366.759	178.621	85.218	(93.403)	(52.291)
Domestic	271.246	300.595	330.401	117.995	225.171	242.003	3.351	5.803	2.452	73.172
Foreign	124.309	143.159	86.575	117.588	129.377	124.756	175.270	79.415	(95.855)	(54.690)
Net Financing	351.646	115.263	538.172	319.118	175.239	242.851	516.803	546.076	29.273	5.664
Net Domestic Borrowings	218.598	64.103	468.126	402.939	162.667	178.069	535.022	499.232	(35.790)	(6.689)
Net Foreign Borrowings	133.048	51.160	70.046	(83.821)	12.572	64.782	(18.219)	46.844	65.063	(357.116)
Less: Change in Cash (Budgetary Accounts)	37.188	(82.491)	295.345	155.056	102.147	121.161	127.933	67.953	(122.676)	(95.891)
TOTAL NET FINANCING REQUIREMENTS	314.458	197.754	242.827	164.062	73.092	121.689	388.871	478.123	(160.918)	(41.381)
% of GDP	3.49	2.04	2.30	1.42	0.58	0.91	2.68	3.00		
GDP Nominal	9,003.480	9,708.332	10,567.336	11,548.191	12,642.736	13,307.265	14,528.872	15,937.446		

Source: 2017 BESF

Foreign borrowings will amount to P126.26 billion, in the form of program loan of P68.18 billion, P34.08 billion in project loans and P24 billion in bonds and other inflow. Of this amount, P79.42 billion will be used to amortize maturing foreign debts. The balance (net borrowing) of P46.844 billion will also be used to finance the cash deficit.

Thus, the net borrowings from both domestic and foreign sources will total P546.08 billion, of which P478.12 billion will be used to finance the deficit and P67.95 billion will cover change in cash of the Bureau of Treasury.

I. CONSOLIDATED PUBLIC SECTOR FINANCIAL POSITION

The consolidated public sector financial position (CPSFP) sums up the over-all cash positions of the national government, the central bank, the fourteen (14) monitored government corporations, government financial institutions, local government units and the social security institutions (SSIs).

Particulars	2010	2011	2012	2013	2014	2015	2016	2017
Public Sector Borrowing Requirement	(379.1)	(220.1)	(224.0)	(92.7)	(40.9)	(113.5)	(375.7)	(480.8)
National Government	(314.5)	(197.8)	(242.8)	(164.1)	(73.1)	(121.7)	(388.9)	(478.1)
As a percentage of GDP	(3.5)	(2.0)	(2.3)	(1.4)	(0.6)	(0.9)	(2.7)	(3.0)
CB Restructuring	(7.7)	(3.5)	(3.5)	(1.1)	(2.7)	(3.7)	(5.7)	(6.2)
Monitored GOCCs	(66.9)	(19.8)	(5.0)	60.9	19.8	3.0	(6.6)	(12.9)
Adjustments in Net Lending and Equity to GOCCs	9.9	1.0	27.3	11.6	15.1	8.9	25.4	16.4
Other Adjustments	0.1							
Other Public Sector	23.3	45.1	61.3	137.5	162.7	193.0	152.8	170.1
SSS/GSIS/PHIC	40.1	48.0	72.7	62.5	76.3	58.2	57.9	67.3
Bangko Sentral ng Pilipinas (BSP)	(63.7)	(47.4)	(94.8)	(23.7)	(10.7)	(3.7)	1.0	1.0
Government Financial Institutions (GFIs)	9.5	9.8	9.9	15.3	12.5	13.4	15.0	16.0
Local Government Units (LGUs)	34.1	34.7	73.6	83.4	84.6	125.1	78.9	85.8
Timing Adjustments of Interest Payment to BSP	0.4							
Other Adjustments	2.9		(0.1)					
Consolidated Public Sector Surplus/(Deficit)	(355.8)	(175.0)	(162.7)	44.8	121.8	79.5	(222.8)	(310.7)
As a percentage of GDP	(4.0)	(1.8)	(1.6)	0.4	1.0	0.6	(1.5)	(1.9)
Nominal GDP (In Billion Pesos)	9,003.5	9,708.3	10,561.1	11,542.3	12,642.7	13,307.3	14,528.9	15,937.4
Sources: From 2010 -2013, DBM Time Series Budgetary Tables, 1983-2016								
From 2014-2017, 2017 Budget of Expenditure and Sources of Financing (BESF)								

For 2017, NG estimates that the consolidated public sector financial position will further decline from a deficit of P222.8 billion this year to P310.7 billion in 2017. The higher consolidated public sector deficit (CPSD) is primarily caused by a bigger NG deficit of P478.1 billion, which is somehow offset by the continuing good performance of the other public sector, namely the GSIS, SSS, PHIC, GFIs and the LGUs. As reflected in Table 15, the said entities will continue to post surpluses and even the BSP, which has been in the red for six (6) consecutive years albeit in varying degrees, is estimated to post a P1 billion surplus for this year and next.

The P478.1 billion NG deficit target for 2017 which accounts for 3 percent of GDP is point three percentage points higher than this year's 2.7 percent. This higher deficit target, as articulated in the President's Budget Message to Congress, is envisioned to allow the new administration to increase spending on infrastructure, rural development and social services.

The fourteen (14) monitored GOCCs or the fourteen major non-financial government corporations (MFNGCs) will also contribute to the rise in the CPSD with P12.9 Billion, up by more than 95 percent from this year's revised target.

J. DEBT SERVICE

The debt service payments covering interest and principal amortization will amount to P647.279 billion, which is nearly 21 percent lower than this year's projection. This is composed of interest expense of P334.876 billion and principal amortization of P312.403 billion.

Table 16										
NG Debt Service Expenditures										
For the Years 2010 to 2017										
(In Million Pesos)										
Particulars	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Adjusted	2017 Proposed	Variance	
									Amount	%
Interest Payments	294,244	278,996	312,800	323,434	321,184	309,364	327,717	334,876	7,159	2.18
Domestic	175,673	170,476	201,215	222,317	220,494	215,589	211,784	237,601	25,817	12.19
Foreign	118,571	108,520	111,585	101,117	100,690	93,775	115,933	97,275	(18,658)	(16.09)
Principal Amortization	395,555	443,754	416,974	235,583	354,548	487,895	488,050	312,403	(175,647)	(35.99)
Domestic	271,246	300,595	330,401	117,995	225,171	363,139	312,780	232,988	(79,792)	(25.51)
Foreign	124,309	143,159	86,573	117,588	129,377	124,756	175,270	79,415	(95,855)	(54.69)
Total Debt Service	689,799	722,750	729,774	559,017	675,732	797,259	815,767	647,279	(168,488)	(20.65)
Domestic	446,919	471,071	531,616	340,312	445,665	578,728	524,564	470,589	(53,975)	(10.29)
Foreign	242,880	251,679	198,158	218,705	230,067	218,531	291,203	176,690	(114,513)	(39.32)

Sources: 2010-2014 DBM Times Series Budgetary Tables. 1983-2016
2010-2017, 2017 BESF

Interest expense which forms part of the total national expenditure program is slightly higher by 2.18 percent or P7.159 billion. As a percentage of total expenditure, the allocation for interest expense has consistently gone down from 19.98 percent in 2010 to 10.00 percent in 2017. This can be attributed to the government's proactive stance to improve our debt structure by repaying expensive outstanding debts through buy back transactions during periods when borrowing costs are very low. This has resulted in a wider fiscal space to use limited resources to more productive endeavours.

Principal amortization, which is an off-budget item, is P175.647 billion or 36 percent lower in 2017. This means that debts that need to be refinanced or rolled-over in 2017 is lower than this year's estimate of P488.050 billion. The lower refinancing requirement, which can be attributed to NGs strategy to borrow in long tenors that smoothes out debt redemption schedules, will offset the expansion in the NG deficit for 2017.

K. DEBT STOCK

In nominal terms, the NGs outstanding debt for 2017 is estimated to grow by 5.48 percent to P6.526 trillion, and is composed of P4.382 trillion in domestic debts and P2.143 trillion in foreign debts. From 2010 to 2016, the proportion of domestic to foreign debt is on the average 63:37 ratio. For 2017, it is estimated at 67:33 ratio in favour of domestic debt. This bias for domestic borrowing will presumably lessen the impact of adverse exchange rate movements on debt valuation and servicing.

As of 30 June 2016, the total debt stock is P5.948 trillion, with domestic debt at P3.828 trillion and foreign debt at P2.120 trillion.

Particulars	2010	2011	2012	2013	2014	2015	2016	2017	Variance 2017 vs. 2016	
	Actual	Actual	Actual	Actual	Actual	Actual	Adjusted	Proposed	Amount	%
Domestic Debt	2,711.64	2,866.85	3,470.44	3,558.50	3,822.17	3,884.78	4,110.37	4,382.42	272.05	6.62
Regular Accounts	2,709.21	2,864.42	3,468.01	3,557.92	3,821.59	3,884.20	4,109.79	4,382.42	272.63	6.63
Assumed Liabilities	2.43	2.43	2.43	0.58	0.58	0.58	0.58		(0.58)	(100.00)
Foreign Debt	1,946.30	1,920.91	2,009.02	1,871.02	2,014.29	2,083.32	2,076.78	2,143.68	66.90	3.22
Regular Accounts	1,942.55	1,917.21	2,005.33	1,867.30	2,010.18	2,079.22	2,072.67	2,143.68	71.01	3.43
Assumed Liabilities	3.75	3.69	3.69	3.73	4.11	4.10	4.11		(4.11)	(100.00)
TOTAL OUTSTANDING DEBT	4,657.95	4,787.76	5,479.46	5,429.52	5,836.46	5,968.09	6,187.15	6,526.09	338.95	5.48
Regular Accounts	4,651.77	4,781.63	5,473.34	5,425.22	5,831.78	5,963.41	6,182.46	6,526.09	343.63	5.56
Assumed	6.18	6.12	6.12	4.30	4.69	4.68	4.68	0.00	(4.68)	(100.00)

Sources: 2010-2014 DBM Times Series Budgetary Tables. 1983-2016
2010-2017, 2017 BESF

K.1. DOMESTIC DEBT

The Philippine government issues two (2) kinds of debt instruments. These are the treasury bonds and treasury bills. Treasury bonds have longer tenors and higher yield expressed in coupon rates, while treasury bills have shorter maturities: 91-day; 182; and 364 day, and the yield ranges from 1.4470 percent to 2.3060 percent.

Table 18 shows the type of debt securities that have been issued by the Philippine government and its magnitude for 2015 to 2017.

Particulars	2015	2016	2017	Variance	
	Actual	Adjusted	Proposed	2017 vs. 2016	
Total	3,884.20	4,109.79	4,382.42	272.63	6.63
Treasury Bills	264.44	298.47	338.47	40.00	13.40
Fixed Rate Treasury Bonds	1,754.56	1,865.69	1,964.00	98.32	5.27
Benchmark Bonds	1,031.34	1,001.29	1,101.29	100.00	9.99
Retail Treasury Bonds	753.20	851.86	891.39	39.53	4.64
Onshore Dollar Bonds	23.88	23.88	23.88	-	-
Agrarian Reform Bonds	6.64	18.45	13.23	(5.22)	(28.31)
CB-BoL (T/Bonds)	50.00	50.00	50.00	-	-
Others	0.16	0.16	0.16	-	(0.08)

Source: 2017 BESF

K.2. EXTERNAL OR FOREIGN DEBT

By 2017, the country's external debt will amount to P2.144 trillion or 32.85 percent of the total outstanding debts. In US dollar, it is equivalent to US\$44.660 Billion.

The biggest component of our foreign debt is the debt securities issued by the national government for budgetary support amounting to US\$27.564 Billion Dollars. This accounts for more than 61 percent of the total foreign debt.

Particulars	2014 Actual	2015 Actual	2016 Adjusted	2017 Proposed
Total	41,878,812	43,316,973	43,180,657	44,659,948
Asian Development Bank (ADB)	4,701,962	5,264,451	5,559,065	6,209,430
Int'l. Bank for Reconstruction and Dev. (IBRD)	3,644,269	4,354,727	4,571,557	5,060,319
Int'l Development Association (IDA)	113,059	103,853	92,859	80,134
Int'l Fund for Agricultural Development (IFAD)	68,208	72,460	85,438	96,514
OPEC Fund for International Development	16,515	21,550	19,628	18,100
Japan Eximbank	241,992	204,041	160,982	116,565
Japan International Cooperation Agency (JICA)	4,133,253	4,186,272	4,132,314	4,054,451
KFW	42,115	39,064	35,634	32,204
Public Law 480	184,692	165,842	149,880	134,357
US Agency for International Dev't (USAID)	30,195	23,764	18,372	13,890
French Protocol	42,363	36,285	31,122	26,462
Other Foreign Creditors	1,322,233	1,216,930	1,237,574	1,253,879
Paris Club Account	20			
Debt Securities for Budgetary Support	27,337,936	27,627,734	27,086,232	27,563,643
Source: 2017 BESF				

The Asian Development Bank (ADB) continues to be our biggest foreign creditor with US\$6.209 Billion Dollars; followed by the International Bank for Reconstruction and Development (IBRD) and the Japan International Cooperation Agency (JICA) with US 5.060 Billion Dollars and US 4.054 Billion Dollars, respectively.

The debt-to-GDP ratio has been on a downward trajectory since 2001. By the end of this year, it is estimated to be at 42.59 percent.

Table 20								
National Government Debt Indicators								
For the Years 2010 to 2017								
(In Percentage Points (%))								
Particulars	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Adjusted	2017 Proposed
NG Debt as a % of GDP	51.73	49.32	51.88	47.04	46.16	44.85	42.59	40.95
Composition	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Domestic	58.22	59.88	63.34	65.54	65.49	65.09	66.43	67.15
Foreign	41.78	40.12	36.66	34.46	34.51	34.91	33.57	32.85
Interest Payments								
as a % of Revenue	20.36	20.52	20.38	18.85	16.83	14.67	14.52	13.49
as a % of Expenditures	19.98	17.66	17.10	16.18	15.91	12.81	10.92	10.00
as a % GDP	3.27	2.87	2.96	2.80	2.54	2.32	2.26	2.10

Despite the higher NG deficit target of P478.1 billion for 2017, the Duterte administration projects that it can further lower the debt-to-GDP ratio to 40.95 percent by 2017. It expects that the economy will grow faster than the deficit through the reforms that will be implemented.

The administration is optimistic that the country's debt stock as a proportion of the economy will fall below 40 percent of GDP by 2018 and around 35 percent in 2022.

Sources:

2016 Budget of Expenditures and Sources of Financing

2017 Budget of Expenditures and Sources of Financing

2017 National Expenditure Program

2017 President's Budget Message

National Budget Memorandum No. 126 dated April 4, 2016

www.treasury.gov.ph/statisticaldata/revenues

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