II. Fiscal Policy in Relation to Overall Development Policy

What is fiscal policy?

revenue generation and expenditures allocation

Fiscal policy is the government's policy on the generation of its resources through taxation and/or borrowing, as well as the setting of the level and allocation of expenditures.

It is the objective of the government to pursue and maintain sound fiscal policy. This is possible through the establishment of an efficient, equitable and progressive revenue system. Moreover, the government is committed to adopt a spending strategy consistent with the macroeconomic development targets and sectoral priorities.

What are the components of the fiscal policy?

There are three components of fiscal policy: revenue policy, expenditure policy and debt management policy.

What is the revenue generation policy?

ability to pay concept

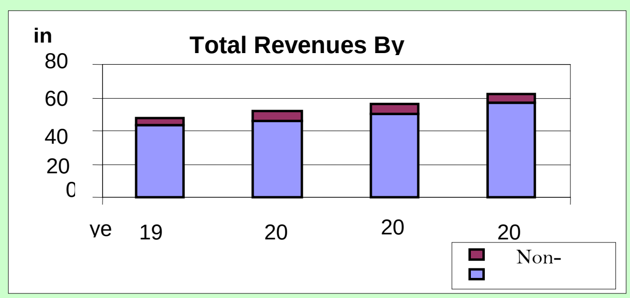
Revenue is defined as cash flow which does not increase the liability of the government. Revenues of the government include both domestic and external revenue, and borrowings. Government's policy in raising revenues is rooted on the "ability to pay" concept. Revenue generation must be equitable and efficient. It must be administratively feasible to implement, and projections should be realistic. Revenues can be raised administratively or legislatively.

There are two objectives why government raises revenues. One is to increase or raise revenue collections and second for regulatory purposes.

Revenue Program By Source
In Billion Pesos

Particulars	2002	2001	2000	1999
Tax	571	499	460	432
Non-Tax	53	59	55	47
Total	624	558	515	479
% Share				
Tax	91.51%	89.43%	89.32%	90.19%
Non-Tax	8.49%	10.57%	10.68%	9.81%

Sources: BESF 1999- 2002



What are the sources of revenue?

tax revenues

non-tax revenues

There are two general sources of revenue, namely, tax and non-tax.

Tax Revenues are compulsory charges or levies imposed by government on goods, services, transactions, individuals, entities and others, arising from the sovereign power of state. Examples of these are the income tax, sales tax, and import duties.

Non-tax Revenues are collected from sources other than compulsory tax levies, including those collected for direct services rendered by government agencies to the public. They can also arise from the government's regulatory and investment activities. Examples cover fees and charges, Treasury income, privatization proceeds and foreign grants.

What is expenditure policy?

efficient and effective fund allocation

Basically, the government views expenditures as a tool for effectively implementing public policy. Funds are disbursed for the efficient delivery of services to the public and to help in economic growth by supporting priority sectors. The government allocates funds in the most efficient and effective way to ensure rational and equitable resource allocation.

The bulk of government expenditures come mainly from taxes. The government ensures that the level of expenditures is consistent with the approved surplus/deficit program for the year.

What is debt management policy?

affordability to pay

It is the policy of the government to attain a manageable debt level. This is one where the country can afford to pay its maturing liabilities as scheduled.

Normally, borrowings are incurred to finance development projects. Recently, however, borrowings are now used as budget support for various government programs and projects, such as the utilization of Overseas Development Assistance (ODA). The government incurs borrowing therefore to fund priority programs and projects.

What is the fiscal position of the government?

a balanced budget, or surplus or deficit

The fiscal position of the government reflects the government's financial condition for the year. This summarizes total revenue collections and expenditures, and the resulting surplus or deficit.

The fiscal position of the government may result in a balanced budget, a budgetary surplus or a budgetary deficit. A balanced budget is achieved if government revenues equal the approved level of expenditure. If the government's projected revenue is more than its projected expenditure, then the government will have a surplus. However, if the government revenue is less than its expenditures, then the government is said to be in deficit.

What comprises the public sector?

The public sector is composed of the national government, the local governments, the Bangko Sentral ng Pilipinas, the social security institutions and the government owned and/or controlled corporations. These sectors complement each other and they collectively employ their capabilities to speed up development. In preparing the fiscal program, all the financial transactions of these sectors are summed up to generate the consolidated public sector resources.

What are the fiscal institutions in

The fiscal policies and program are formulated and implemented by the following:

the government?

Development Budget Coordination Committee
Implementing agencies
Congress
. Commission on Audit

0. **W**hat is the task of the Development Budget Coordination Committee (DBCC)?

fiscal body

formulates fiscal policies

monetary, banking and credit policies

cash resources management and debt servicing

national budget formulation

annual and medium-term public investment program formulation

The Development Budget Coordination Committee (DBCC) is the Committee tasked to estimate revenues and recommend sources of financing. It determines and recommends the annual government expenditure program and the sectoral and activity ceilings, including the allocation between operating and capital outlay expenditures. As a fiscal body, it formulates policies governing revenues, expenditures and debt management. The DBCC is composed of the NEDA Director-General, a representative from the Office of the President, the Governor of the Bangko Sentral ng Pilipinas, and the Secretaries of Finance and Budget and Management. The Secretary of Budget and Management serves as the Chairman.

Assisting the DBCC is the Executive Technical Board (ETB), composed of technical staff of the same entities.

The Bangko Sentral ng Pilipinas (BSP) is primarily responsible for policy direction over money, banking, and credit. It provides controls in the supply of and demand for money through bonds and borrowings. It promotes and maintains monetary stability and the convertibility of the peso. Moreover, the BSP supervises the operations of banks and exercises regulatory powers pursuant to RA No. 7653.

The Bureau of the Treasury (BTr) is the principal custodian of all national government funds. It manages the cash resources and services public debts from domestic or foreign sources, among others.

The Department of Budget and Management (DBM) is responsible for formulating and implementing the national budget and ensuring the efficient and sound utilization of government funds and resources.

The National Economic and Development Authority (NEDA) is the planning agency of the government. It is responsible for formulating annual and medium-term public investment programs. It programs official development assistance in the form of grants and concessional loans from foreign governments and multilateral agencies.

In line with the policy of intensifying revenue generation and controlling expenditure growth, the government is targeting a government budget deficit of P130 billion. This is equal to 3.1% of GNP for the year 2002. The government is likewise committed to achieve fiscal balance or a zero deficit by the year 2006.

1. **W**hat are the respective roles of the implementing agencies in fiscal policy setting?

In order to effectively carry out fiscal policies, government agencies help in developing and firming up macro fiscal policy at the micro level. Agencies mandated to raise revenues include the Bureau of Internal Revenue, Bureau of Customs, Land Registration Commission, and other regulatory offices. The Bureau of Treasury is mandated to manage debt policy. The rest of the agencies implement the expenditure policies.

2. **W**hat is the role of Congress in fiscal policy setting?

The legislative bodies provide the legal framework for the implementation of fiscal policies. They ensure that fiscal policy is not only sound but also implementable and realistic. They see to it that the level of macroeconomic indicators and parameters are achievable given present economic conditions.

3. **W**hat is the role of the Commission on Audit (COA)?

The Commission on Audit (COA) ensures that agencies abide with the generally accepted rules and regulations in implementing their functions. The COA is also the agency that prepares the annual financial report of the government.

4. **I**n what way can the budget be considered a fiscal policy instrument and a development tool?

The budget is the primary instrument for the implementation of the government's policy. It sets the direction and pace of economic growth and development. During recession, the government is expected to pump prime the economy. However, in better times, the government is expected to give way to private participation and initiatives. As such, the budget can serve as an effective development tool and not just as a control mechanism. The budget must address critical priorities and thrusts of the government.

5. **W**hat is the planning and budgeting cycle?

Both planning and budgeting undergo a cycle. It begins with preparation and ends with accountability or assessment. Ideally, the planning cycle runs as follows.

planning process

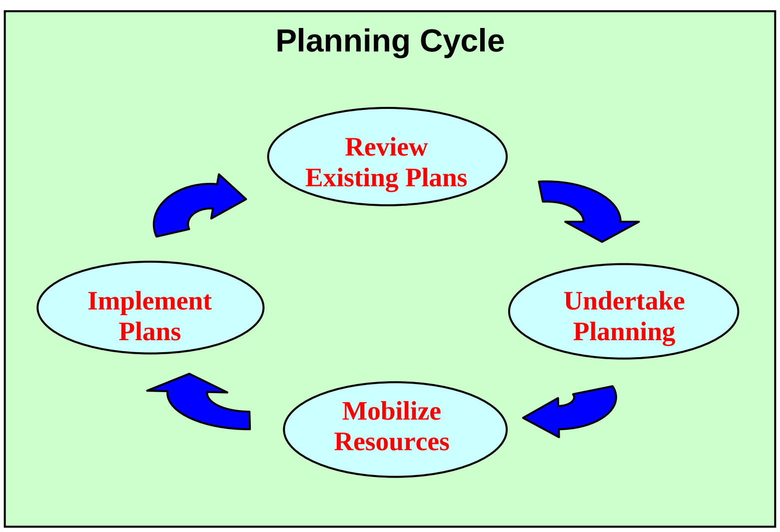
At the start is the review process of existing plans. Then the government undertakes actual planning. Initially this is done at the planning office of an agency, then it is deliberated at the higher decision levels. It is finally brought to the macro level. After plans are firmed up, next come mobilization, allocation and identification of resources. Then follows the implementation of the planned activities.

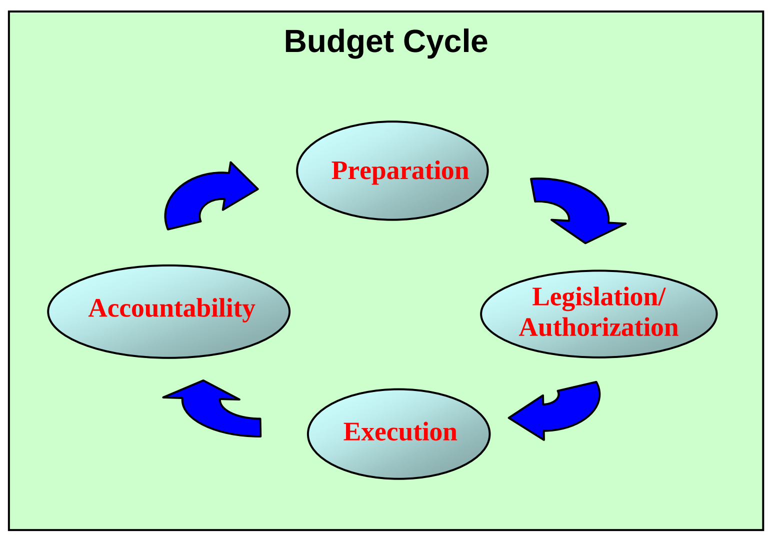
budgeting process

The budgeting cycle, on the other hand, starts from budget preparation, then budget legislation, followed by budget execution. The final phase is budget accountability.

The budget preparation stages are as follows:

Issuance of a budget calendar
Agency preparation/deliberation
Technical budget hearings
Setting of agency budget levels





5. What are the linkages involved between planning and budgeting?

Effective planning and budgeting linkages are crucial. Plans indicate the objectives, policies and strategies of the government. Budgets are the mechanisms through which the government raises and allocates resources. Plans which are not reflected in budgets are substantially irrelevant. Budgets which do not operationalize a consistent expenditure strategy will not lead to the better use of public resources.

NEDA and DBM reconcile plans and the national budgets

All told, it is important that plans are linked with budgets, and this requires close coordination between NEDA and DBM. Too often though does actual resource allocation turn out quite different from what was planned. It is important therefore for these oversight agencies to seriously reconcile plans and budgets. Even Congress is accused of piling up unfunded legislation.

Sector Effectiveness and Efficiency Review(SEER)

The latest initiative for linking planning and budgeting is the Medium-Term Expenditure Framework. One of its components is the Sector Effectiveness and Efficiency Review (SEER). This exercise aims to determine the appropriateness of PAP vis-a-vis target outcomes and organization mandates. It provides a quick feedback on the effectiveness and efficiency of agency programs. It helps rationalize a) the inclusion of new projects in the budget, and b) the process of budget cutting.

What is fiscal planning?

The government undertakes an annual fiscal plan that includes budgetary requirements. Some comment that due to the volatility of the economy, it is difficult to project the future, so budgetary fiscal scenarios seem unrealistic. However, it is still important that the government embarks on long-term fiscal planning. This will insure long-term stability and progress.

Medium Term Expenditure Framework (MTEF)

As part of budgetary reform, there is now support for a longer budget framework. Since 1999, DBM has worked for the installation of a Medium Term Expenditure Framework (MTEF). The budget will continue to be approved on an annual basis. However, proposed appropriations will be defined within the context of a six-year macroeconomic plan, a three-year prioritized public investment program, and a three-year costing of agency programs, projects and activities. This will ensure that the future financial implications of new spending and savings decisions in any given year are consistent with the medium term fiscal targets.

DBM reported that out of the 31 laws passed by Congress between 1991-1999, with a total funding requirement of P691 billion, half of this amount, or P347 billion, remains unfunded as of the end of July 2000.

What is sectoral planning?

The major sectors are social services, economic services, general public services, defense, net lending, and debt service. Normally, the social services sector garners the lion's share of the budget followed by the economic services sector.

aggregates the individual agency/ units plans

Under the present set up, sectoral planning is not yet in place. Planning is still done either by agencies or by levels of government. The sectoral plans just present the aggregates of the individual agency plans. In the same manner the allocation by sector also aggregates individual agency budgets. Initial identification of sectoral plans and programs are contained in the President's Budget of Expenditures and Sources of Financing.

9. **W**hat comprise the social services sector?

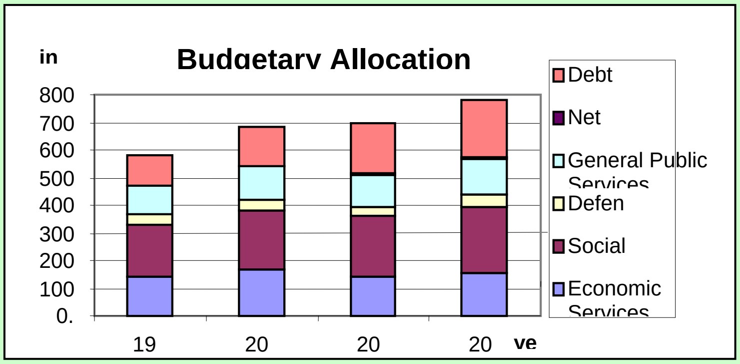
The expenditures for social services include agency programs, projects and activities in the following areas of concern: (1) education, culture and manpower development; (2) health; (3) social welfare and employment; (4) housing; and (5) the Comprehensive Agrarian Reform Program.

0. **W**hat comprise the economic services sector?

The sector includes the following: (1) natural resources; (2) agriculture and agrarian reform; (3) trade and industry; (4) tourism; (5) power and energy; (6) water resource development and flood control; (7) communications, roads and other transportation; and (8) other economic services.

Budgetary Allocation by Sector
(in PB)

Sector	2002	2001	2000	1999
Economic Services	157.7	141.2	167.2	139.2
Social Services	233.0	217.2	213.0	192.8
Defense	46.1	32.8	36.2	33.0
General Public Services	133.6	120.0	122.5	105.9
Net Lending	6.1	7.0	2.6	3.2
Debt Services	204.3	181.6	140.9	106.3
Total	**780.8**	**699.8**	**682.4**	**580.4**



1. **W**hat is regional planning?

RDC consultations

Devolved agencies undertake regional planning in coordination with the Regional Development Councils (RDCs) and the Local Government Units (LGUs). The RDCs are responsible for drawing up regional development plans and programs. They undergo a continuing process of consultation to ensure consistency with the regional development investment program.

2. **W**hat is program/ project planning?

priority programs/projects

Before the start of budget preparation, each agency undertakes planning together with NEDA. New programs are identified before the budget proposals are submitted to DBM. The funding source is likewise considered. If funds are to be sourced from foreign financial institutions, planning is more complicated. Project proposals are presented to NEDA or the Investment Coordinating Committee (ICC) before they are submitted to the funding institutions.

The government states which priority programs and projects should be supported during the budget year. If fiscal policy is tighter, then the government may devote a larger portion of its budget to the regular programs/activities. However, this kind of policy depends on economic conditions.

3. **W**hat is Short-term planning?

Usually, short-term plans are those found within the President's budget message. They are included in the State of the Nation address and cover only a year.

4. **W**hat is Long-term planning?

medium term development plan

Long-term plans are part of the medium term development plan of NEDA, and are spread across the full term of the administration.

The government sees to it that the short-term plans are consistent with its long-term plans.

5. What has been the government's fiscal policy?

maintain a budget surplus

Historically, national government expenditures have almost always exceeded revenues, resulting in annual budget deficits. Thus, the national government had to resort to borrowing, leading to the ballooning of foreign and domestic debts. However, in 1994, the government broke the deficit trend by posting a budget surplus of P16 billion. This was achieved through aggressive privatization revenue generation and a prudent expenditure program. Since then, the government has been exerting efforts to maintain the surplus budget policy.

6. Why is surplus budgeting necessary?

encourage economic growth

debt service

The surplus budget policy is important to encourage economic growth. The less the government borrows from the public, the less the pressure on interest and inflation rates and the more funds are made available in the financial markets. Such funds may be used by businessmen to build factories, hire workers, buy equipment and open more employment opportunities. By keeping more funds in the hands of the private sector rather than competing for credit, the government helps make financing available for families who want to own homes, buy cars, or support their children's education.

The government also needs to generate a budget surplus to repay the huge debt it has accumulated over the years. The reduction of the national debt will correspondingly lessen government's requirements for interest and principal payments. This becomes important particularly during periods of rising interest rates and unstable exchange rates

7. What is the total resource budget concept and its significance?

impact of the budgets of all government entities on the national economy

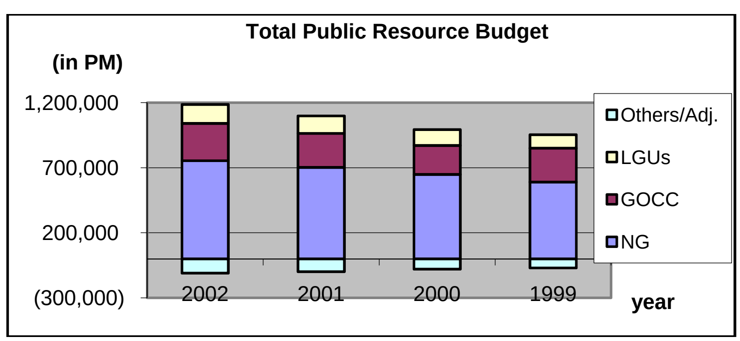
Total resource budgeting is a concept being currently adopted. The national government budget is prepared within the framework of the total impact of all government entities on the national economy. Under this concept, the National Government budget is considered as only one component of all public sector resources.

GOCCs and LGUs are also regarded as major contributors to total public resources. They are therefore required to prepare their budgets consistent in form and timing with that of the national government.

Under the concept of total resource budgeting the energies and capacities of all public entities are harnessed. It draws up the optimal package of goods and services that can be sustained by available resources.

Total Public Resource
(in

Secto	200	200	200	199
N	754,30	703,21	648,97	590,16
GOC	286,65	261,39	222,76	260,57
LGU	145,83	134,09	121,37	103,03
Others/Ad	(109,537	(98,384	(79,135	(69,691
Tota	**1,077,25**	**1,000,32**	**913,98**	**884,08**



For fiscal year 2002, the Macapagal-Arroyo government is committed to reduce the total budgetary deficit level from P165.1B to P136.1B, or a net improvement of P29B. Fiscal improvements were attributed to the effect of the national government to reduce its cash deficit program from (P145B to P130B) and the impressive financial performance of the Social Security Institutions (SSS/GSIS). They contributed a projected surplus of P16B.

8. **What is the consolidated public sector fiscal position (CPSFP)?**

net deficit or surplus

The consolidated public sector fiscal position (CPSFP) refers to the net deficit or surplus, calculated after summing-up the budget balances of all government entities. These entities are the National Government, the non-financial government corporations, 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.

Through the CPSFP, the government can mobilize all public resources and use them in magnitudes consistent with overall targets.

9. **What is the planning-programming- budgeting system (PPBS)?**

The planning-programming-budgeting system (PPBS) is a concept that stresses the importance of strong linkages between planning and budgeting. Under PPBS, the budget is anchored on the degree by which it supports the attainment of targets contained in the Medium-Term Philippine Development Plan (MTPDP) and the Medium-Term Public Investment Program (MTPIP).

The Department of Budget and Management is determined to give more flesh to the performance-based budgeting approach in crafting the 2002 budget. The DBM will put greater focus on outcomes and performances and strengthen the linkage of the budget with the Medium-Term Philippine Development Plan.

Moreover, the year 2002 budget marked the start of involvement of Civil Society and the private sector in preparing the budget.