



# **The 2009 Budget, Economic Stimulus Fund and Its Impact on the Poor**

**By Prof. Leonor Magtolis Briones**

*UN National College of Public Administration and Governance*

*And*

*Lead Convenor, Social Watch Philippines*

***The Specter of Debt, Recession and the Global Economic Crisis:  
Alternatives and Urgent Measures***

*A Forum of the Freedom from Debt Coalition*

*Quezon City*

*June 17, 2009*



# Outline

- Highlights of Alternative Budget Initiative (ABI) critique of 2009 Budget;
- Critique of stimulus package;
- 2009 pump priming efforts;
- Budget advocacy and reforms
- Investing in inclusive and sustainable development.



# Highlights of ABI's critique of 2009 Budget

1. Expected revenues should be recomputed to determine realistic levels as the P1.39 trillion BESF estimate is likely overstated;
2. Interest payments should be recomputed to determine realistic levels considering likely interest and exchange rates for 2009 as P302.65 billion BESF estimate is likely understated;



## Highlights, con't.

- Budget deficit should be determined based on adjusted revenue and interest payments as BESF figure of P40 billion is likely understated;
- Expenditures should be cut to eliminate unnecessary, redundant and questionable items which have vague or not special provisions and are prone to unbridled discretion;
  - ABI identified P82.85 billion;
  - House Minority identified P84 billion;
- Reallocate a portion of the expenditure cuts from No. 4 to key social and economic services as proposed by ABI.



# Responses to Economic Crisis

- P330-Billion Economic Resiliency Plan
  - “The ERP will minimize the impact of the economic global downturn through measures aimed at stimulating positive performance in all sectors of society.”<sup>[1]</sup>
- P1.4 Trillion 2009 Budget
  - P10-Billion Economic Stimulus Fund
  - P188-Billion increase from 2008 budget to provide funds for activities to encourage growth in economy and create jobs<sup>[2]</sup>

[1] “Philippine Economic Resiliency Plan: Meeting the Global Crisis Head-on”, DevPulse, NEDA Advocacy Factsheet Vol. 30 No. 1, January 15, 2009

[2] DBM Sec. Andaya as cited in “GMA signs P1.4 trillion budget”, Manila Bulletin, March 14, 2009



# **P330 Billion Economic Stimulus Package<sup>[1]</sup>**

## **– quo vadis?**

- P160 Billion NG budget;
- P100 Billion private sector and GFIs partnership programs for infrastructure projects;
- P40 Billion reduced income taxes;
- P30 Billion increased benefits from PhilHealth, SSS and GSIS benefits.

[1] "Arroyo stimulus 'likely to fail', Philippine Daily Inquirer, [http://archive.inquirer.net/view.php?db=1&story\\_id=190894](http://archive.inquirer.net/view.php?db=1&story_id=190894) February 25, 2009



# Will the stimulus package impact on the poor?

- PhilHealth, GSIS and SSS benefits are available only to members which hardly constitute the poor population;
- The 2009 GAA only has P10 Billion for Economic Stimulus Fund; the rest of the P160 billion is part of usual programs of government;
- Reduction of income taxes is not a new intervention as it was implemented in 2008.
  - Consumption expenditures fell in 1<sup>st</sup> Quarter of 2009;
  - Little impact on 4.4 million unemployed as of April 2009<sup>[1]</sup>
- Gov. Salceda doubts feasibility of infrastructure projects citing lack of concrete plans and unlikely to generate jobs within the year since they are not easily implementable.<sup>[2]</sup>

[1] Source: April 2009 Labor Force Survey <http://www.census.gov.ph/data/pressrelease/2009/lf0902tx.html>

[2] "Arroyo stimulus 'likely to fail', Philippine Daily Inquirer, [http://archive.inquirer.net/view.php?db=1&story\\_id=190894](http://archive.inquirer.net/view.php?db=1&story_id=190894) February 25, 2009



# Economic stimulus packages in East and North-East Asia

The Economic and Social Survey of the East Asia and the Pacific 2009 Report gives details on the economic stimulus packages of some countries in the region.

## ***China***

\$584 billion package to stimulate domestic demand  
- includes a component for health and education

\$123 billion to improve the country's health care system which includes

- an annual subsidy
- upgrading of grassroots medical institutions, health services and public hospitals



# Economic stimulus packages in East and North-East Asia

## *Korea*

Committed 4% of its GDP for a package that includes:

- job creation
- welfare support
- reduced real estate taxes

Specific mention is made of providing better job training through expansion of the internship system;

The 50 million won “Green New Deal Job creation Plan” is intended for environment-friendly job creation



# Economic stimulus packages in South-East Asia

Countries have among the largest fiscal stimulus that are largely focused on tax breaks and incentives, rescue operations for industries and infrastructure

**Indonesia** has \$6.1 billion

**Malaysia** has \$1.9 billion

**Philippines** has \$6.5 billion

has set up a separate allocation for conditional cash transfers

**Singapore** has \$13.7 billion

package include cash transfers to employers

**Thailand** has \$3.3 billion

promises a one-time cash distribution program

**Vietnam** has \$1 billion

is packaging subsidized loans to farmers



## ***Stimulus packages neglects development of local capacities to cope with crisis***

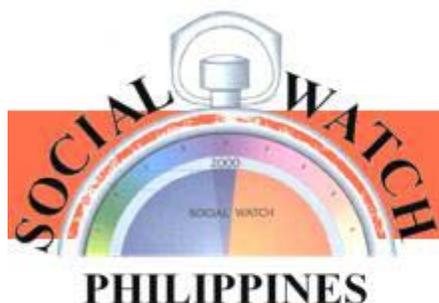
- stimulus packages of both donor and recipient countries give an impression that these are designed for quick results;
- as the ESCAP report points out, short term responses are not sustainable if the crisis will linger;
- short-term responses like cash transfers and short term job creation are focused on the individuals;
- a truly effective capacity development focuses on organizations, like communities, builds up their capacities to find solutions to survive the crisis as well as assure them of sustained growth;
- short-term solutions, like prolonged cash transfers, may not be complimentary to local capacity development, may lead to dependency, do not solve problems of poverty, low levels of productivity, employment and community morale.



# Fiscal Targets

<b>PARTICULARS</b>	<b>2008 Actual</b>	<b>2009 Programmed</b>	<b>2010 Proposed</b>
<b>Levels in Billions</b>			
Revenues	<b>1,202.9</b>	<b>1,295.8</b>	<b>1,403.1</b>
Disbursements	<b>1,271.0</b>	<b>1,495.0</b>	<b>1,576.4</b>
Surplus/(Deficit)	<b>(68.1)</b>	<b>(199.2)</b>	<b>(173.3)</b>
<b>Growth Rate</b>			
Revenues	<b>5.8</b>	<b>7.7</b>	<b>8.3</b>
Disbursements	<b>10.6</b>	<b>17.6</b>	<b>5.4</b>
Surplus/(Deficit)	<b>447.5</b>	<b>192.4</b>	<b>(13.0)</b>
<i>Deficit Financing Mix (%)</i>			
<i>Foreign</i>	<b>14.0</b>	<b>25.0</b>	<b>23.0</b>
<i>Domestic</i>	<b>86.0</b>	<b>75.0</b>	<b>77.0</b>
<i>Debt-to-GDP Ratio (%)</i>	<b>56.3</b>	<b>55.7</b>	<b>53.4</b>

Source: FY 2010 Budget Call, DBM



# 2009 Fiscal Performance

(in million Php)

	V a r i a n c e			
	Jan-Apr 2008 Actual	Jan-Apr 2009 Actual	vs 2008 Actual	Growth Rate (%)
<b>REVENUES</b>	<b>375,546</b>	<b>351,940</b>	<b>(23,606)</b>	<b>-6.3%</b>
Tax Revenues	331,914	310,285	(21,629)	-6.5%
BIR	257,957	241,847	(16,110)	-6.2%
BOC	70,618	64,730	(5,888)	-8.3%
Other Offices	3,339	3,708	369	11.1%
Non-Tax Revenues	43,632	41,655	(1,977)	-4.5%
BTr Income	21,793	24,410	2,617	12.0%
Fees & Charges	14,896	16,732	1,836	12.3%
Privatization	6,868	505	(6,363)	-92.6%
Grants	75	8	(67)	-89.3%
<b>EXPENDITURES</b>	<b>401,343</b>	<b>463,722</b>	<b>62,379</b>	<b>15.5%</b>
o.w. Interest Payments	118,972	122,160	3,188	2.7%
<b>SURPLUS/(DEFICIT)</b>	<b>(25,797)</b>	<b>(111,782)</b>	<b>(85,985)</b>	<b>333.3%</b>

Source: Department of Finance



# Pump priming efforts for naught?

- The aggressive national government spending failed to drive growth in the economy for the first quarter.
- “The pump priming that had been planned in response to the global crisis obviously has not taken place,” – NSCB SecGen Romulo Virola<sup>[1]</sup>
- There have been doubts from the BSP, as to the accuracy of the expenditure report or whether they have actually been spent;<sup>[2]</sup>
- Why did public construction posted -4.4% when government repeatedly proclaims infrastructure as its priority to stimulate the economy?

[1] “0.4% growth puts RP on edge of recession” Philippine Daily Inquirer [http://archive.inquirer.net/view.php?db=1&story\\_id=207724](http://archive.inquirer.net/view.php?db=1&story_id=207724) May 29, 2009

[2] “BSP doubts gov’t spending reports” Philippine Daily Inquirer [http://archive.inquirer.net/view.php?db=1&story\\_id=208472](http://archive.inquirer.net/view.php?db=1&story_id=208472) June 2, 200

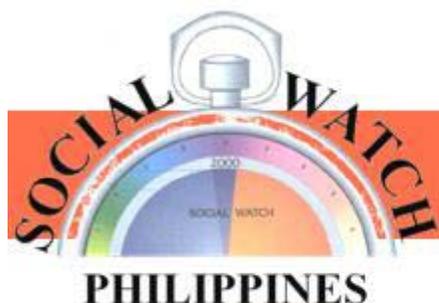


## More deficit spending can push the country into debt crisis

- “The government remains committed to increased and more effective public spending to help stimulate the economy.” –Sec. Teves<sup>[1]</sup>
- With falling revenues, further increase in deficit target for 2009 from current P199 billion can pressure gov’t to more borrowings;
- Government debt, at nearly P4 trillion, was still high and a drastic increase in public spending could lead to a worrisome fiscal condition. – Fitch Ratings<sup>[2]</sup>

[1] “Budget deficit target may be raised yet again” [http://archive.inquirer.net/view.php?db=1&story\\_id=208313](http://archive.inquirer.net/view.php?db=1&story_id=208313) June 01, 2009

[2] “RP debt burden to weigh down on economy” [http://archive.inquirer.net/view.php?db=1&story\\_id=207863](http://archive.inquirer.net/view.php?db=1&story_id=207863) May 29, 2009



# National Government Financing 2009

(In Million Php)

Particulars	Jan	Feb	Mar	Apr	TOTAL
<b>Financing</b>	<u>61,046</u>	<u>(37,602)</u>	<u>6,047</u>	<u>18,870</u>	<u>48,361</u>
External (Net)	<u>69,873</u>	<u>10,383</u>	<u>(45,332)</u>	<u>3,248</u>	<u>38,172</u>
External (Gross)	<u>72,127</u>	<u>17,260</u>	<u>6,299</u>	<u>5,048</u>	<u>100,734</u>
Project Loan	741	582	1,668	5,048	8,039
Program Loans	0	16,678	4,631	0	21,309
Bonds & Other Inflows	71,386	0	0	0	71,386
Less: Amortization	2,254	6,877	51,631	1,800	62,562
Domestic (Net)	<u>(8,827)</u>	<u>(47,985)</u>	<u>51,379</u>	<u>15,622</u>	<u>10,189</u>
Domestic (Gross)	<u>1,937</u>	<u>24,121</u>	<u>92,977</u>	<u>26,619</u>	<u>145,654</u>
Fixed Rate I - Bonds (Net)	21,217	38,684	53,727	42,878	156,506
Domestic Bonds Exchange	7,940	0	0	0	7,940
Retail Treasury Bonds	0	0	0	0	0
Treasury Bills (Net)	(27,220)	(14,563)	39,250	(16,259)	(18,792)
Less: Amortization	10,764	72,106	41,598	10,997	135,465

Source: Bureau of the Treasury



# 2009 National Gov't Debt Service

(in Million Php)

Particulars	Jan	Feb	Mar	Apr	TOTAL
<b>TOTAL DEBT SERVICE</b>	<b><u>48,550</u></b>	<b><u>114,495</u></b>	<b><u>128,506</u></b>	<b><u>28,636</u></b>	<b><u>320,187</u></b>
Interest Payments	<u>35,532</u>	<u>35,512</u>	<u>35,277</u>	<u>15,839</u>	<u>122,160</u>
Domestic	12,833	24,659	19,187	11,093	67,772
Foreign	22,699	10,853	16,090	4,746	54,388
Principal Payments	<u>13,018</u>	<u>78,983</u>	<u>93,229</u>	<u>12,797</u>	<u>198,027</u>
Domestic	10,764	72,106	41,598	10,997	135,465
Foreign	2,254	6,877	51,631	1,800	62,562

Source: Bureau of the Treasury



# Issues raised by ABI on budget implementation

- Conditional implementation in President's Veto Message
  - ABI has expressed apprehension as it can easily be used for political objectives;
- Non-release of appropriated funds
  - ABI raised concern over the practice of accumulating savings which are actually unreleased funds.
  - Poses threat of underspending for social development especially when government is hard-pressed to meet deficit targets.



# **ABI budget advocacy are based on:**

- The principles of participatory budgeting where citizens are directly involved in the budget process;
- Recognizes the role of the legislature in the budget process as provided for in the Constitution;
- Monitoring and tracking of budget implementation by civil society organizations.



# Call for Budget Reforms

- There are systemic issues in the budget process which should be addressed to curb abuses and misuse of public resources and promote effective and efficient public expenditures program;
- ABI, Social Watch Philippines and Rep. TG Guingona III collaborated in the research, analysis and development of budget reform proposals which resulted in filing of several legislative reform bills in HOR.



# Budget Reform Measures

- HB 5580 Impoundment Control Act;
- HB 5706 National Budget Fund Classification Act;
- HB 5707 Budgeting Guidelines for Re-enacted Budget
- HB 5723 An Act Defining Unprogrammed Funds
- HB 5724 An Act Mandating that the Bicameral Meeting on the National Budget be conducted in an Open and Transparent Manner;
- HB 5725 An Act Mandating Transparency in Fund Releases;
- HR 912 Open and Transparent Bicam;
- HB 5716 National Budget Savings Act;
- HB 5256 People's Participation in Budget Deliberation Act



# ESCAP: Investing in inclusive and sustainable development

- Public spending should be expedient so that the depth of the trough is contained expeditiously;
- Ensure that current fiscal expenditures have the highest social rates of return;
- Spending not only for social infrastructure but also on improving delivery of education and health systems is key to the quality of future economic growth and development;

Source: *“Addressing the Triple Threats to Development”* Economic and Social Survey of Asia and the Pacific 2009 (UN Economic and Social Commission for Asia and the Pacific)



# Con't

- Need to expand social protection systems;
- If the downturn is prolonged, longer-lasting public spending (ex. social infra and services) may be more valuable than fast-acting expenditures (ex. tax cuts and transfers);
- Investing in environmentally sustainable development and innovation.



The financial crisis is not only about banks, stimulus packages, tax relief and infrastructure. The *human face* of the crisis is reflected on:

- the mothers who die while giving birth unattended by physicians;
  - infants dying due to preventable causes;
    - workers laid-off from jobs;
  - graduates who have little job opportunities;
- millions of people suffering from hunger and limited access to adequate food.