Republic of the Philippines
Development Budget Coordination Committee
Malacañang, Manila

Year-End Report on the 2013 National Budget
December 2014

Introduction

Despite the continuing uncertainty in the global environment and the disasters that hit the Visayas and Mindanao in 2013, the Philippine economy defied these grim forecasts, surpassing government expectations and growing by 7.2 percent, the second fastest in Asia. The broad-based GDP growth, coupled with robust macroeconomic fundamentals, affirmed the feasibility of Administration's game plan for development: that good governance is an effective platform to expand the economy in an inclusive manner.

The solid macroeconomic fundamentals and political stability bolstered public confidence and positive expectations that promoted both consumer and investment spending and eventually led to further growth and higher revenue collections, enlarging the fiscal space for building the foundations for Inclusive Development-- a virtuous cycle where increasingly no one, regardless of birth, gender, and geography, is left behind in the country's progress.

Three years after the Aquino Administration assumed office in 2010, this game plan has shown favourable results: significant reduction of poverty in 2013 that has started reversing the opportunities lost in lifting people out of impoverishment in the last decade. High growth coupled with the government's focused interventions effectively brought 2.5 million Filipino families above poverty line.

The renewed confidence in the country as evidenced by the successive credit rating upgrade to investment grade, has emboldened the government to effect difficult but necessary reforms that have greatly redistributed public resources towards the poor. The government under the Aquino Administration has been unabashedly biased for the poor, pouring massive investments in human development such as social protection, universal health care, and basic education for all.

The 2013 National Budget, dubbed as the Empowerment Budget," has made these remarkable feats happen, as it was designed to foster local ownership of development by creating greater spaces for citizen's engagement, investing heavily on public services, and empowering each Filipino to participate in the economy.

This Year-End Report for 2013 puts into context the contribution of the National Budget - as the government's financial blueprint for its socio-economic development agenda - in the pursuit of creating and inclusive economy that is anchored on the platform of good governance.

This report discusses the following:

- ❖ Overview of the principles and policy reforms that informed the design of the 2013 National Budget, dubbed as the "Empowerment Budget;"
- ❖ Examination of year's fiscal performance relative to the macroeconomic, revenue, expenditure, financing and debt targets;
- ❖ Discussion of government spending by sector, expense class, department, and program; and
- ❖ A narrative reporting of the non-financial performance of key departments and major programs and projects based on the performance indicators.

I.
The 2013 National Government Budget

The 2013 "Empowerment Budget" was shaped by the Administration's unrelenting commitment to its governance reform, as well as its unambiguous desire to build an empowering regime of transparency, accountability, and citizen's engagement in how government is run and how public funds are used. As the President said in his Budget Message, "Malinaw ang atas ng taumbayan: maglingkod nang tapat, nang walang ibang iniisip kundi ang kapakanan nilang nagluklok sa atin sa poder. Ipinagkatiwala nila sa atin ang kapangyarihang ating pasan - kabilang ang kapangyarihan sa kaban ng bayan - upang gamitin ito para sa kanilang ikauunlad."

Building on the gains of the 2012 "Results-Focused Budget," which has dramatically reshaped budgetary priorities around the key results areas of the Aquino Social Contract with the Filipino People, the 2013 "Empowerment Budget" sought to show how focused planning and programming can in fact translate into direct and meaningful impact on the lives of Filipinos: empowerment through adequate social and economic services that lift the poor from poverty and create more jobs and livelihood opportunities for them.

The Budget for 2013 was guided by the following principles and key reforms:

Deepening Commitment to the Social Contract

The 2013 Budget provided greater allocations to the five Key Result Areas (KRAs) of the Aquino Social Contract:

1. Transparent, Accountable, and Participatory Governance;
2. Poverty Reduction and Empowerment of the Poor and Vulnerable;
3. Rapid, Sustained, and Inclusive Economic Growth;
4. Just and Lasting Peace and the Rule of Law; and
5. Integrity of the Environment and Climate Change Adaptation and Mitigation.

The government introduced the Program Budgeting Approach to ensure that all departments and agencies collaborate with each other in fleshing out strategies towards achieving target results to the five KRAs and align their budgetary allocations accordingly. For instance, the Department of Tourism (DoT), Department of Transportation and Communication (DoTC), and other related agencies collaborated, before submitting their separate budget proposals, to collectively increase tourism arrivals and maximize the potential of the tourism industry as a job generator.

Proposed programs and projects were also subjected to scrutiny through Zero-Based Budgeting. With this approach, the government made exhaustive and rigorous studies on the efficiency, effectiveness, and sustainability of government programs and projects before deciding on the budget allocation. This approach helped reduce fund wastage, operational inefficiencies, and corruption in government spending.

Accelerated Completion of Priority Program Targets

The government also recognized that focused programming entails speedy execution of the budget; thus, various reforms were set in place to support the timely and effective completion of priority program targets.

The 2013 Budget was implemented by designating key departments as principal implementers of various programs and projects. For instance, the Department of Public Works and Highways (DPWH) was designated as the principal infrastructure agency in charge of implementing critical projects such as roads and bridges, classrooms, and rural heath units, among other infrastructure projects. This enabled, for instance, the Departments of Education (DepEd) and Health (DOH) to focus on their major mandates of increasing literacy and enrolment rates and combating infectious diseases and malnutrition.

Timely and efficient utilization of funds is critical to achieving targets under the five KRAs. Thus, the Department of Budget and Management (DBM) deployed Accounts Management Teams to nine major departments (DPWH, DepEd, DoTC, DOH, the Departments of Social Welfare and Development (DSWD), Agriculture (DA), Agrarian Reform (DAR), National Defense (DND), and the Interior and Local Government (DILG)) in order to closely monitor their financial and physical performance to help these address operational bottlenecks impinging on the disbursement of funds and actual delivery of services.

Strengthening Government Accountability to Perform

The government is duty bound to show results for the decisions and actions it has taken. Thus, the 2013 National Budget deeply linked budgeting to performance by considering how each peso spent translated to targets under the five KRAs committed by agencies. For one, the 2013 Budget deepened the implementation of the Organizational Performance Indicator Framework (OPIF), a budget accountability tool that links budgetary allocation to measureable targets. In improving OPIF, departments and agencies were tasked to review their major final outputs and their corresponding performance indicators in order to align these to the strategic objectives of the Social Contract with Filipino People.

Moreover, the government, under Administrative Order No. 25, harmonized government's performance monitoring, information, and reporting systems in order to streamline and simplify existing mechanisms into a single Results-Based Performance Management System (RPBMS). Alongside this was the introduction of the Performance-Based Incentive System to encourage the bureaucracy to perform better and work faster. With the pilot implementation of this system, public servants who meet or even surpass their individual and institutional performance targets may be given as much as P35,000 in annual bonuses. A 96 percent participation rate of agencies (183 out of 191 agencies) was recorded for this 2013 first year exercise, with the compliance rate for the good governance conditions averaging to 88 percent. Some 79 percent of participating agencies or 144 agencies were declared eligible for the performance based bonus.

Fiscal Transparency for Faster, Clearer Results

Access to information about fiscal policies-from taxation to disbursement-facilitates citizen engagement and sets a higher standard of accountability among public officials and institutions. Thus, the 2013 Budget deepened reforms that recognize the relationship between the government as steward of taxpayer's monies and the citizens as contributors to and beneficiaries of public resources.

For one, the 2013 National Budget pursued the further disaggregation of lump sum funds - un-transparent budget items that have resulted in leakages and implementation delays in the past - as a result of the early preparation of the budget and stronger linking of planning, programming and budgeting. During the budget authorization process, some P196.6 billion of lump sum funds in agency budgets had been fleshed out.

Technology was also harnessed to embed fiscal transparency in government processes. The 2013 National Budget required agencies to post on their websites a Transparency Seal (TS) that links citizens to information on their finances, key services, and even their officials. Some 87% of agencies complied with the TS requirements in terms of presence of the TS and completeness of content. The DBM also increased the amount of fiscal information publicly available - such as through an online portal on releases from the now-defunct Priority Development Assistance Fund - and pursued means, such as the People's Budget publications and BudgetNgBayan.com, to help citizens understand technical budget information.

The DBM together with the Commission on Audit (COA), Department of Finance, (DOF), and Bureau of Treasury (BTr) also began the development of the Government Integrated Financial Management System, which is envisioned to automate and integrate the processing and flow of financial management information and provide real-time information among public financial management oversight agencies and implementing agencies. By December 2013, the Public Finance Management Committee had approved the GIFMIS Conceptual Design which is the blueprint for its development and implementation. The PFM agencies started implementing prerequisites for GIFMIS – a Treasury Single Account (TSA), Unified Account Codes Structure (UACS), Revised Chart of Accounts, and Performance-Informed Budgeting Framework.

Deepening Participation in Public Expenditure

The 2013 Budget affirmed a simple truth: that development must be owned by Filipinos. In this regard, the Budget introduced a game-changing innovation: the Bottom-up Budgeting (BUB) process (currently called Grassroots Participatory Budgeting). Through this pilot implementation of BUB, local civil society organizations and people's organizations (CSOs) engage local government units in developing poverty reduction plans that outline priority programs and projects that were included in the 2013 Budget. Some P8.4 billion of funds were allocated for BUB projects in 609 cities and municipalities.

The National Budget also expanded the coverage of Budget Partnership Agreements between CSOs ands national government agencies. In the 2013 Budget, 12 departments and six government-owned and/or -controlled corporations (GOCCs) forged BPAs with CSOs in order to ensure monitoring of agency budgets.

The budget has been designed to enable Public-Private Partnerships (PPP) for the delivery of social services - classrooms and other educational facilities, rural health facilities, hospitals, and others - under Build-Transfer and Build-Lease-Transfer arrangements. As of December 2013, a total of eleven (11) PPP projects worth P196.48 billion were approved by the NEDA Board, five (5) of which have been awarded to the private proponents. This included the two PPP projects of DepEd costing P20.14 billion to build 13,673 classrooms to fast track the resolution of the classroom shortage as of 2010.

II.
Macroeconomic and Fiscal Performance

a. Macroeconomic Environment

In 2013, the Philippine economy remained strong and resilient, with growth exceeding the government's target range of 6 – 7 percent in 2013. Domestic output grew by 7.2 percent in 2013, higher than the previous year's 6.8 percent expansion. The economy's growth trajectory had further picked up from 6.3 percent of the previous 2 years, the 4.8 percent from 2001-2010, and the 2.9 percent from 1991-2001. Clearly, the country is heading towards a higher and more sustainable growth path.

Table 1.FY 2013 Economic Performance

PARTICULARS	2013				
	FY 2013 BESF Initial Projections		FY 2014 BESF Adjusted/Updated		Actual
	low	high	low	high	
Gross National Income	5.4	6.4	5.9	6.9	7.5
Gross Domestic Product	6.0	7.0	6.0	7.0	7.2
Net Primary Income	3.5	4.4	4.9	5.9	9.0
Expenditures					
Household Final Consumption Expenditure	5.7	6.6	5.4	6.4	5.7
Government Final Consumption Expenditure	4.0	5.0	12.7	13.7	7.7
Investments	9.6	11.1	9.1	10.1	29.9
Exports	9.9	11.0	5.9	7.0	-1.1
Imports	10.5	11.6	7.2	8.3	5.4
Production					
Agri. Hunting, Forestry, and Fishing	4.5	5.5	3.5	4.5	1.1
Industry	6.2	7.4	6.4	7.5	9.3
Services	6.1	7.2	6.3	7.3	7.2

Source: National Economic and Development Authority (NEDA)

On the demand side, the 7.2 percent growth was mainly contributed by household spending followed by fixed capital formation (FCF). It is worth noting that the contribution of FCF to the country's economic growth started to improve in 2012 and it increased further in 2013. This was primarily due to stronger growth in investments in durable equipment and construction, owing to the upbeat level of business confidence, low interest rates, and manageable inflation rate. Net exports contracted during the period, affected by the weak global economy.

On the supply side, the services and the industry sectors remained to be the main growth drivers during the period. Specific subsectors that contributed to growth were manufacturing; trade and repair of motor vehicles, motorcycles, personal and household goods; real estate, renting and business activities (which includes Business Process Management or BPM services), and financial intermediation. The acceleration of manufacturing activities was the main reason behind the increased contribution of industry in 2013 as the subsector provided more than three fourths of the industry's growth during the period. The slower contribution of agriculture in 2013, however, was mainly attributed to the negative impact of the numerous natural calamities that wreaked havoc in our country during the period.

Supported by the inflow of overseas Filipino (OF) remittances, gross national income also rose by 7.5 percent in 2013 from 6.4 percent the previous year, surpassing the 5.9-6.9 adjusted target for FY 2013.

The strong growth of the economy materialized in a low inflation environment. Headline inflation hit the low end of the inflation target band of 4 ± 1 percent. This was the fifth consecutive year that average inflation has been kept within the government target. The 3 percent inflation in 2013 was also slightly slower than prior year's average headline inflation of 3.2 percent. Inflation decelerated due largely to lower non-food inflation. Given the solid growth and benign inflation dynamics, the BSP maintained its reverse repurchase (RRP) and repurchase (RP) rates at 3.5 and 5.5 percent, respectively. The BSP also implemented operational adjustments in the Special Deposit Account (SDA) including a reduction in the SDA rate to 2 percent to enhance monetary operations and ensure sufficient liquidity to sustain economic growth.

Table 2. FY 2013 Performance vs. Macroeconomic Assumptions

Particulars	2013		
	FY 2013 BESF Initial Projections	FY 2014 BESF Adjusted/Updated	Actual
Inflation	3.0 – 5.0	3.0 – 5.0	3.0
364-day T-bill rate a/	3.0 – 5.0	1.0 – 3.0	0.7
Exchange rate *(PhP/USD, period average)*	42.00 – 45.00	41.00 – 43.00	42.45
LIBOR (6 months)	0.5 – 1.5	0.5 – 1.5	0.4
Dubai crude oil price *(US$/barrel)*	90.00 – 110.00	90.00 – 110.00	105.52
Merchandise exports growth b/	12	11	-3.6
Merchandise imports growth b/	14	13	-3.1

a/ Based on primary market rates

b/ Based on the Balance of Payments Manual, 6th Edition (BPM6) concept

Source: National Economic and Development Authority (NEDA), Bangko Sentral ng Pilipinas

With ample liquidity in the market, low and stable policy interest rates, strong demand for government securities, as well as improved fiscal position of the National Government (NG), the 364-day T-bill rate in the primary market decreased significantly from 2 percent in 2012 to 0.7 percent in 2013. This was lower than the FY 2013 DBCC assumption of 3 – 5 percent and the revised 2013 assumption of 1 – 3 percent in the FY 2014 Budget of Expenditures and Sources of Financing (BESF). Similarly, foreign interest rates declined as LIBOR went down from 0.7 percent in 2012 to 0.4 percent in 2013, near the low end of the 2013 assumed rates of 0.5 – 1.5 percent. Foreign interest rates remained low owing to continued accommodative policy stance of central banks in advanced economies to boost the recovery of their economies.

The Philippine peso weakened slightly as it averaged P42.45/US$ in 2013 as compared to P42.23/US$ average rate in 2012. The weakening of the peso was broadly consistent with the depreciation pressures seen in the neighboring economies. Nonetheless, this was within the government assumed trading range of P42.00 – 45.00/US$ in the FY 2013 BESF. Likewise, the 2013 average peso-dollar exchange rate settled within the 2013 revised assumption range of P41.00 – 43.00/US$ in the FY 2014 BESF. The depreciation of the peso was influenced mainly by the volatilities in the global financial markets. Market concerns over the uncertainties in the Euro area's debt crisis, the US budget impasse over the debt ceiling and measures of automatic spending cuts and tax increases, and prospects of tapering by the US Federal Reserve of its quantitative easing (QE) program exerted depreciation pressures on the peso. This was, however, counterbalanced by the ample supply of foreign exchange from OF remittances, business process outsourcing (BPO) earnings, and tourist receipts.

Dubai crude oil price eased from US$109.08 per barrel in 2012 to US$105.52 per barrel in 2013. This was within the range of the government oil price assumption for the year of US$90 – 110.00 per barrel. The decrease in oil prices was driven mainly by abundant oil supply from non-OPEC region despite concerns of oil supply disruptions from geopolitical unrests in the Middle East and North Africa (MENA).

The weak performance of some advanced economies (i.e., US and Europe) dampened the demand for the country's products and led to the lower-than-expected growth of the country's merchandise trade in 2013. Merchandise exports in 2013 contracted by 3.6 percent, below the projected exports growth for the year of 12 percent in the FY 2013 BESF and revised assumption of 11 percent in the FY 2014 BESF. This was due mainly to the decline in demand for electronics exports (-22.8 percent), which accounted for around 35 percent of the country's total exports in 2013. The moderation in electronics exports was partly offset by the increased demand for fruits and vegetables, other agro-based products, and mineral products exports.

Similarly, merchandise imports contracted by 3.1 percent, lower than the 2013 government's assumption for imports growth of 14 percent in the FY 2013 BESF and 13 percent in the FY 2014 BESF. Weak imports outturn followed the contraction in the materials and accessories for the manufacture of electronics equipment (-21.6 percent) offsetting the stronger demand in capital goods (i.e., refleeting of major airlines, rehabilitations of power plants, among others) and consumer goods.

Overall, the remarkable economic performance of the country was supported by strong macroeconomic fundamentals, marked by low and stable inflation, favorable interest rates, sustainable fiscal and external positions, and stable financial sector. Acknowledging this sustained improving trend, four major credit rating agencies upgraded the country's credit rating to investment grade in 2013[2]. The upward trend in the country's macroeconomic indicators also benefitted from the implementation of critical reforms in recent years to help address the constraints to inclusive growth and development.

b. Fiscal Performance

In the midst of this improving macroeconomic landscape and with the implementation of important reforms like the GOCC Governance Act of 2011, the Sin Tax Law of 2012, and the reorganization of the Bureau of Customs, a healthier public sector fiscal performance registered in 2013. The government registered consolidated public sector surplus of 0.2 percent of GDP from a deficit of 1.8 percent in 2012. This improvement was largely due to improved financial performance of Government Owned- And/Or Controlled Corporations (GOCCs), Government Financial Institutions (GFIs), and Local Government Units (LGUs), each posting surplus of P61.6 billion, P15.5 billion, and P54.5 billion, respectively. Similarly, Bangko Sentral ng Pilipinas (BSP) cut its deficit by 75.0 percent.

[2] These credit rating agencies and the date when the upgrade to investment grade was given were Moodyŝs (October 3, 2013), Fitch Rating (March 27, 2013), Standard and Poorŝs (May 2, 2013), Japan Credit Rating Agency (May 7, 2013). Source: DOF

Table 3. Consolidated Public Sector Financial Position, 2012-2013

Particulars	Levels (In Billion Pesos)			As Percent of GDP	
	2012 Actual	2013 Actual	Growth	2012 Actual	2013 Actual
Public Sector Borrowing Requirement	**(226.689)**	**(91.987)**	**59.4%**	**(2.145)**	**(0.797)**
National Government	(242.827)	(164.062)	32.4%	(2.298)	(1.421)
CB Restructuring	(3.506)	(1.116)	68.2%	(0.033)	(0.010)
Monitored Government-Owned and Controlled Corporations	(4.955)	61.609	1343.4%	(0.047)	0.533
Adjustment in Net Lending and Equity to GOCCs	24.599	11.582	-52.9%	0.233	0.100
Other Public Sector Position	**34.550**	**111.172**	**221.8%**	**0.327**	**0.963**
Social Security Institutions (SSS/GSIS/PHIC)	72.731	64.884	-10.8%	0.688	0.562
Bangko Sentral ng Pilipinas	(94.848)	(23.725)	75.0%	(0.898)	(0.205)
Government Financial Institutions (GFIs)	9.888	15.494	56.7%	0.094	0.134
Local Government Units (LGUs)	46.841	54.519	16.4%	0.443	0.472
Timing Adjustment of Interest Payments to BSP	-	-		-	-
Other Adjustments	(0.062)	-		(0.001)	-
Consolidated Public Sector Surplus/Deficit	**(192.139)**	**19.185**	**281.2%**	**(1.818)**	**0.166**
Memo Items:					
Nominal GDP (In Billion Pesos)				*10,567.34*	*11,548.19*

Source: Department of Finance (DOF), FY 2015 BESF

The National Government (NG) also lowered its budget deficit significantly by 32.4 percent, from P242.8 billion in 2012 to P164.1 billion in 2013. The deficit-to-GDP ratio thus, decreased from 2.3 percent in 2012 to 1.4 percent in 2013 given the increased revenue collection of P181.2 billion compared to the increased in disbursements of P102.4 billion.

c. Revenue Performance

In 2013, total revenues amounted to P1,716.1 billion, growing by 11.8 percent year-on-year with tax revenues as main contributor to the robust collections. This was the third year of strong double digit revenue growth outpacing economic growth.

Table 4. National Government Revenue Performance
(in Billion Pesos, unless otherwise indicated)

NG Fiscal Position	2012	2013		Growth (%)
	Actual	Program	Actual	
Total Revenues	**1,534.9**	**1,745.9**	**1,716.1**	**11.8**
Tax Revenues	1,361.1	1,607.9	1,535.7	12.8
Tax Effort (%)	*12.9*	*13.5*	*13.3*	3.2
BIR	1,057.9	1,253.7	1,216.7	15.0
BOC	289.9	340.0	304.9	5.2
Other Offices	13.3	14.2	14.1	6.1
Non-Tax Revenues	165.5	136.0	177.5	7.2
BTr Income	84.1	57.7	81.0	(3.6)
Others	81.3	78.3	96.1	18.2
o.w. Fees & Charges	27.8	32.0	30.5	9.7
Grants	0.1	-	0.3	224.2
Privatization	8.3	2.0	2.9	(64.8)
Expenditure	**1,777.8**	**1,983.9**	**1,880.2**	**5.8**
Surplus/(Deficit)	**(242.9)**	**(238.0)**	**(164.1)**	**(32.5)**
% of GDP	*(2.3)*	*(2.0)*	*(1.4)*	(38.2)

Source: FY 2014 and FY 2015 BESF

Of the total revenues, P1,535.7 billion or 89.5 percent were tax revenues while non-tax revenues and privatization contributed P180.4 billion or 10.5 percent.

Total tax revenue has increased by 12.8 percent year-on-year, but was still 1.7 percent lower than the target collection. Tax effort improved and registered at 13.3 percent due to collection increases of the Bureau of Internal Revenue (BIR), Bureau of Customs (BOC), and other offices.

Tax revenues from Bureau of Internal Revenue (BIR) which accounted for about 79.2 percent of the total taxes grew significantly by 15.0 percent year-on-year but fell short of the target by P37.0 billion or 3.0 percent mainly due to negative impacts of the calamities. The improved collection performance was attributed to the 51 percent larger -than -projected collection from the Sin Tax Law, the Bureau's implementation of stricter tax programs like Run After Tax Evaders (RATE), and enhancements made on the tax payment system.

Total collections of Bureau of Customs (BOC) amounted to P304.9 billion. This is 5.2 percent or P15.1 billion higher than the previous year, though lower by P35.1 billion than the target set for 2013. With the personnel movement and the appointment of new officials and staff, including a new Commissioner and 6 new Deputy Commissioners, as well as the creation of new offices under the DOF which were charged to review and modernize current operations, BOC collections starting November, 2013 shot up be greater than 20 percent over the previous year.

Non-tax revenues totaled P177.5 billion, higher than the program by P41.5 billion or 30.5 percent. The Bureau of the Treasury (BTr) registered an income and collection of P81.0 billion, declining by 3.6 percent over 2012, but was higher than the program by P23.3 billion.

A total of P96.1 billion was accounted for other non-tax revenues which was higher than the previous year by 18.2 percent. P30.5 billion was obtained from fees and charges while Malampaya proceeds reached P 27.7 billion.

Income from privatization amounted to P2.9 billion.

BIR and BOC Collections in 2013

Taxes on income accounted for 59.0 percent of total BIR collections, while 20.6 percent came from the collection of Value-Added Tax (VAT). Excise taxes accounted for 9.8 percent. The huge growth in excise taxes can be attributed to the P17.2 billion excess collections from the Sin Tax Law.

Table 5. BIR Collection Performance

Tax Revenues	2012	2013	Growth Rate (%)	2013 Percent Distribution
Total Collections	**1,057.9**	**1,216.7**	**15.0**	**100.0%**
Income Taxes	642.5	718.2	11.8	59.0%
Excise Taxes	72.3	118.9	64.5	9.8%
Value-Added Tax	229.6	250.6	9.1	20.6%
Percentage Taxes	52.6	60.5	15.0	5.0%
Other Taxes	60.9	68.4	12.3	5.6%

Source: Bureau of Internal Revenues (BIR)

Import taxes, comprising VAT and excise, account for 87.5 percent of BOC's collections. Specifically, P167.2 billion VAT on non-oil goods was collected for the year, an annual growth of 11.6 percent. The implementation of various Free Trade Agreements (FTAs) resulted in lower import duties collected. Import duties registered a decline of 12.5 percent year-on-year.

Table 6. BOC Collection Performance

Tax Revenues	2012	2013	Growth Rate (%)	2013 Percent Distribution
Total Collection	**289.9**	**304.9**	**5.2%**	**100.0%**
Import Duties	43.6	38.2	-12.5%	12.5%
Import Tax	246.3	266.8	8.3%	87.5%
VAT	220.8	239.8	8.6%	78.7%
Non-Oil	149.8	167.2	11.6%	54.8%
Oil	71	72.6	2.3%	23.8%
Excise Tax	25.5	26.9	5.5%	8.8%

Source: Bureau of Customs (BOC)

d. Disbursement Performance

Total disbursements of the national government by December, 2013 reached P1,880.2 billion, recording a P102.4 billion or 5.8 percent expansion from the 2012 outturn of P1,777.8 billion. The disbursement performance was buoyed by the 20.5 percent combined growth of maintenance expenditures (MOOE) and capital outlays (CO), and by the 57.4 percent growth in subsidies to GOCCs, principally to cover the implementation of recovery and rehabilitation programs for calamity-affected areas. The increase in spending for 2013 could have been larger at 9.2 percent if the P55.5 billion one-off expense item for the Debt Management Program extended by the national government to the Power Sector Assets and Liabilities Management Corporation (PSALM) in the 4th Quarter of 2012 are netted out from the 2012 accounts.

Spending remained within the disbursement program set for the year by 5.2 percent as disbursements in almost all accounts were below-program, except for funding support to GOCCs in the form of subsidies, equity infusion and net lending. This underspending can be mainly attributed to the large magnitude of delayed agency spending as indicated by the large book balances[3] of departments/ agencies such as DPWH, DepEd, DA, DILG and DOH by the end of the year. Moreover, there was a considerable accumulation of outstanding checks in the amount of P52.9 billion, mostly issued by DND (P11.1 billion), DSWD (P7.1 billion), DILG (P6.2 billion), DPWH (P5.5 billion), and DepEd (P5.1 billion). These outstanding checks formed part of the December underspending, but will eventually be recorded disbursed once presented by the creditors to the banks.

Table 7. Comparison of NCA and Non-NCA Disbursements, 2012-2013
(in Billion Pesos, unless otherwise indicated)

Particulars	Q1-Q3	Q4							January - December						
	2013	2012	2013				2012 vs. 2013		2012	2013				2012 vs. 2013	
	Actual	Actual	Prog.	Actual	Deviation		Inc./(Dec.)		Actual	Prog.	Actual	Deviation		Inc./(Dec.)	
					Amount	%	Amount	%				Amount	%	Amount	%
NCA	1,009.8	449.8	441.6	411.9	(29.7)	(6.7)	(37.9)	(8.4)	1,313.1	1,513.6	1,421.7	(91.9)	(6.1)	108.7	8.3
% of Eff. NCA	*91.3*	*95.0*		*91.1*					*92.9*		*91.3*				
Non-NCA	358.0	105.0	102.5	100.4	(2.1)	(2.0)	(4.6)	(4.4)	464.7	470.3	458.4	(11.9)	(2.5)	(6.3)	(1.3)
Total	1,367.8	554.9	544.2	512.4	(31.8)	(5.8)	(42.5)	(7.7)	1,777.8	1,983.9	1,880.2	(103.7)	(5.2)	102.4	5.8

Source of basic data: Bureau of the Treasury (BTr)

Memo Items:
Effective NCAs Issued net of Trust Liabilities, gross of Working Fund:

Q4		As of December	
2012	473.7	2012	1,413.8
2013	452.0	2013	1,557.9
Q1-Q3, 2013	1,105.9		

Allotment Releases
As of Dec. 2012 1,873.0 representing 103% of the 2012 obligation program of P1,816.0 billion (including Debt Mngt. Program of P55.5 billion)
As of Dec. 2013 2,001.2 representing 99.% of the 2013 obligation program of P2,020.5 billion (including Supplemental Budget)

Source: Budget Technical Service (BTS) - DBM

Table 7 shows that despite the slight deceleration of the NCA utilization rate from 92.9 percent in 2012 to 91.3 percent in 2013, NCA disbursements still grew by P108.7 billion or 8.3 percent year-on-year. Based on consolidated bank reports, increased disbursements were largely evident in DA, DepEd, DILG, DND, DPWH, DSWD and COMELEC. On the other hand, non-NCA disbursements slightly contracted in 2013 with lower requirements for tax subsidies and net lending.

Fourth Quarter (Q4) Disbursement Performance

The Q4 spending level of P512.4 billion was the highest among the actual quarterly disbursements of the year, which averaged at P455.9 billion from the 1st to 3rd quarters. This was due to the significant releases for the relief, rehabilitation and recovery efforts in response to the devastation and destruction in areas massively hit by Typhoon Yolanda, and other natural and man-made calamities. Almost all expenditure items increased, except for Interest Payments, Tax

[3] In simple terms, agency book balance represents the amount of NCAs credited less the checks issued by the agencies for a particular month (i.e., unutilized/lapsed NCAs).

Expenditure Fund, Equity and Debt Management support to GOCCs. Overall, Q4 disbursements managed to grow by 2.6 percent, after netting out the non-recurring Debt Management Program in 2012.

Year-on-Year Performance

The major sources of year-on-year growth in disbursements are as follows:

Table 8. Disbursements by Expense Class, Year-on-Year

Particulars	January-December		Increase/Decrease	
	2012	2013	Amount	%
Current Oper. Exp.	1,391.0	1,519.2	128.2	9.2
PS	542.6	581.7	39.1	7.2
MOOE	236.7	282.9	46.1	19.5
Subsidy	42.1	66.3	24.2	57.4
Allotment to LGUs	218.6	241.8	23.2	10.6
IP	312.8	323.4	10.6	3.4
TEF	38.1	23.0	(15.1)	(39.6)
Capital Outlays	359.3	344.3	(15.0)	(4.2)
Infra & Other CO	215.2	261.8	46.6	21.6
Equity	21.3	11.5	(9.9)	(46.2)
Cap. Transfers to LGUs	67.2	71.0	3.8	5.7
Debt Mngt. Program	55.5	-	(55.5)	(100.0)
Net Lending	27.4	16.6	(10.8)	(39.4)
TOTAL	**1,777.8**	**1,880.2**	**102.4**	**5.8**

Source: FY 2014 and FY 2015 BESF

- Spending for Personnel Services (PS) increased by P39.1 billion or 7.2 percent mainly due to higher claims for retirement gratuity and terminal leave benefits (P42.4 billion in 2013 vs. P25.7 billion in 2012), grant of the 2012 Performance-Based Bonus (PBB) to government employees of departments/ agencies that met the conditionalities of the incentive program (P9.9 billion), payment of the Total Administrative Disability Pension of 16,980 living World War II veterans based on a validated list of beneficiaries (P2.9 billion), and remuneration for government personnel involved in the conduct of the FY 2013 national and local elections.

- Maintenance spending grew by 19.5 percent to reach ₱282.9 billion as of end-2013 mainly due to expansion of government social and economic programs such as the Pantawid Pamilyang Pilipino Program (or the Conditional Cash Transfer Program), the Self-Employment Assistance - Kaunlaran (SEA-K) Program, the national banner programs of the Department of Agriculture, the rationalization of MOOE for public elementary and high schools, the provision of potable and safe water supply to water-less barangays, among others, on top of the spending requirements for the national and local elections. This was also shored up by calamity-related expenditures for areas affected by man-made and natural calamities, including releases to humanitarian programs to assist displaced families from Sabah and those affected by the Zamboanga siege.

- Infrastructure and other capital outlays expanded by 21.6 percent to end at P261.8 billion notwithstanding the impact of the natural and man-made calamities. The increase was primarily driven by the settlement of due and demandable accounts for the DPWH infrastructure program last year including the larger requirements for the implementation of major flood control and drainage projects. The significant increase in budgetary releases was also recorded for the infrastructure program of ARMM, the health facilities enhancement program of the DOH, and the modernization program of the Armed Forces of the Philippines. All this help buoyed infrastructure spending in 2013.

- In terms of growth rates, the largest year-on-year increase was recorded by subsidies to GOCCs of 57.4 percent. This is primarily due to the releases to the NEA for the Sitio Electrification Program, Barangay Line Enhancement Program, and rehabilitation of distribution facilities of electric cooperatives affected by Typhoon Yolanda; to the NHA for the 2011-2012 Housing and Resettlement Programs and AFP/PNP Housing Project, and for the emergency housing assistance for families affected by Typhoon Yolanda and the Zamboanga stand-off; to the PCA for coconut tree disposal and utilization, as well as for coconut fertilization as critical actions needed in Typhoon Yolanda-affected areas; to the CAAP for the repair/rehabilitation of airports affected by calamities; and to the TRANSCO for the restoration of transmission lines in areas affected by Typhoon Yolanda.

- The year-on-year increase in Interest Payments (IP) of 3.4 percent was largely driven by the larger interests on domestic borrowings, due to the issuances of longer-term retail treasury bonds and fixed-rate treasury bonds. In terms of its percentage share in total disbursements, IP in 2013 was lower at 17.2 percent compared to the 2012 share of 18.2 percent.

- However, gains from increased spending in the earlier mentioned accounts was tempered by the reduction in items such as net lending due to the ₱12.3 billion repayments made by PSALM in January 2013 of the P12.9 billion in advances made in 2012; lower tax subsidies and equity contributions extended to GOCCs; and the one-off Debt Management Program in 2012 which allowed GOCCs access to lower cost of borrowings and better maturity structure.

Performance vs. Programmed Levels

There were two predominant events in 2013 that affected the spending performance of the national government for the year. First is the occurrence of more intense calamities, like Typhoon Yolanda that destroyed most parts of the Eastern Visayas region, the 7.2 magnitude earthquake that hit the Central Visayas, and the Zamboanga stand-off, which disrupted normal government operations, causing delay in the processing of payments for the affected regions with the refocusing/ rechanneling of efforts to immediate relief and rehabilitation. The other is the impact of the PDAF and DAP issues, which resulted in the overly cautious processing of payments.

Table 9. Disbursements by Expense Class, Program vs. Actual

Particulars	January-December		Deviation	
	Program	Actual	Amount	%
Current Oper. Exp.	1,588.4	1,519.2	(69.1)	(4.4)
PS	624.4	581.7	(42.7)	(6.8)
MOOE	317.9	282.9	(35.1)	(11.0)
Subsidy	45.0	66.3	21.3	47.3
Allotment to LGUs	241.8	241.8	-	-
IP	332.2	323.4	(8.8)	(2.6)
TEF	26.9	23.0	(3.9)	(14.5)
Capital Outlays	381.0	344.3	(36.7)	(9.6)
Infra & Other CO	303.4	261.8	(41.6)	(13.7)
Equity	1.3	11.5	10.2	772.9
Cap. Transfers to LGUs	76.3	71.0	(5.3)	(6.9)
CARP-LO	-	-	-	
Debt Mngt. Program	-	-	-	
Net Lending	14.5	16.6	2.1	14.7
TOTAL	1,983.9	1,880.2	(103.7)	(5.2)

Source: FY 2014 and FY 2015 BESF

As a result, actual spending against program fell short by P103.7 billion or 5.2 percent. All expenditures stayed within the program, except those for support to GOCCs in the form of subsidy, equity and net lending. The shortfall in the disbursement target is on account of the following:

- The lower-than-programmed spending for PS in the amount of P42.7 billion (6.8 percent) is due primarily to the unreleased balance under the Miscellaneous and Personnel Benefits Fund (MPBF) intended for unfilled positions, creation of new positions and other lump-sum PS items.

- The combined spending for Maintenance and Infrastructure and other capital outlays were down by P76.7 billion or 12.3 percent from the program of P621.4 billion. Aside from the calamities and political developments mentioned above that adversely affect the performance of national government agencies, major departments have experienced a slow down in the implementation of programs and projects caused by delays in the procurement process, right-of-way (ROW) acquisition issues, incomplete submission of documentary requirements, lapses in coordination with partner entities, particularly with LGUs and modification of projects and/or calibration of targets with the changes in the assumptions used during the planning phase.

- The slowdown is particularly evident in the almost P147.1 billion total bank balances largely accounted for by departments such as DPWH (P47.4 billion), DepEd (P14.4 billion), DND (P13.1 billion), DA (P11.1 billion), DILG (P10.4 billion), DSWD(P8.5 billion), and DOH (P6.8 billion) and DENR (P4.5 billion). Of this amount, P52.9 billion represents outstanding checks, or checks already issued by the departments and agencies which have not been encashed yet by creditors. In addition, there were still unreleased balances under the following departments and SPFs, among others, as of December 31, 2013: DOE (P2.6 billion) for Market Transformation thru introduction of Energy Efficient Electric Vehicles Project; DPWH (P2.7 billion) mainly for payment of Right-of-Way and contractual obligations; Calamity Fund (P3.8 billion) and PDAF (P14.6 billion).

- Savings from interest payments amounting to P8.8 billion was generated due to the combined effects of lower volume of domestic borrowings particularly treasury bills and fixed rate treasury bonds, as well as lower-than-programmed interest rates.

- Capital transfers to LGUs were down by P5.3 billion or 6.9 percent due to the delays on the submission of the documentary requirements prior to the release.
- On the other hand, subsidies to GOCCs exceeded program by P21.3 billion or 47.3 percent in view of the releases in Q4 (enumerated in the previous section) to allay the conditions of the areas and citizens affected by the natural and man-made calamities. Equity infusion also finished above program with the P10 billion released to BSP to close the gap in required NG capitalization.

e. Financing and Debt

The National Government (NG) raised a total of P554.7 billion in 2013 to cover the budget shortfall, refinancing for maturing debt and contributions to the Bond Sinking Fund (BSF), as well as non-budgetary operations. The government achieved a 94-6 split between domestic and external financing, respectively, as it relied mainly on domestic financing given ample onshore liquidity and the need to manage surging capital inflows. In terms of issuance, the lower deficit enabled the scaling back of borrowing operations.

Table 10. National Government Financing
(in Million Pesos)

Particulars	2013			Actual vs Rev 2013	
	Program	Revised Program	Actual	Difference	%
Financing	**308,375**	**299,846**	**319,118**	**19,272**	**6%**
External (Net)	80,845	-3,442	-83,821	-80,379	-2335%
External (Gross)	189,761	104,340	33,767	-70,573	-68%
Less: Amortization	108,916	107,782	117,588	9,806	9%
Domestic (Net)	227,530	303,288	402,939	99,651	33%
Domestic (Gross)	*567,958*	*630,691*	*520,934*	-109,757	-17%
Less: Amortization	340,428	327,403	117,995	-209,408	-64%
Financing Mix (% of total)					
External	25%	14%	6%		
Domestic	75%	86%	94%		

Source: Bureau of the Treasury

Taking advantage of sufficient liquidity and favorable domestic funding conditions, the government sourced most of its financing onshore with P520.9 billion raised through the issuance of peso denominated securities. Despite the heavy bias for domestic borrowing, the lower-than-programmed full-year budget deficit allowed NG to borrow less than the revised program. Meanwhile, the NG's healthy cash position allowed the reduction of contributions to the Bond Sinking Fund (BSF) used for the redemption of maturing domestic obligations. The smaller borrowing and reduction in BSF contributions eases future borrowing requirements in line with prudent debt management.

For the year, external borrowing was mainly in the form of concessional loans from development partners as the Government held back its bond issuance in international capital markets as it coordinated with the Central Bank in managing capital inflows. Amortization of outstanding external debt was broadly in line with program, only exceeding targets due to the prepayment of expensive legacy loans as part of liability management initiatives.

National Government Debt

As of yearend 2013, total NG outstanding debt stood at P5,681 billion – P244 billion or 4.5 percent higher on a year-on-year basis. Consistent with the financing program, the growth in government obligations is driven by the expansion of domestic debt which aids in managing foreign exchange risks. The lower deficit and financing requirements translated to lower growth for NG liabilities compared to economic development indicating enhanced debt sustainability. For 2013, the National Government's prudent liability management and strong economic growth has brought down debt-to-GDP to 49.2 percent from 51.5 percent in 2012.

Table 11. National Government Debt
(in Million Pesos)

Particulars	Actual			
	2012	2013	Difference	%
Total	**5,437,104**	**5,681,153**	**244,049**	**4.50%**
External	1,968,729	1,947,731	-20,998	-1.10%
Domestic	3,468,375	3,733,422	265,047	7.60%
% of Total				
External	36%	34%		
Domestic	64%	66%		
% of GDP	**51.50%**	**49.20%**		
External	18.60%	16.90%		
Domestic	32.80%	32.30%		
Average Interest				
External	4.96%	5.06%		
Domestic	6.47%	5.78%		
IP as % of Revenues	**20.40%**	**18.80%**		
IP as % of Expenditures	**17.60%**	**17.20%**		
Average Maturity a/	**10.87**	**10.03**		
External	10.96	10.89		
Domestic	10.44	9.57		
Memo Items				
a/ Average maturity is measured in years on residual basis				
GDP	*10,564,886*	*11,546,104*		
Forex	*41.1*	*44.45*		

Source: Bureau of the Treasury

Alongside improvements in the relative size of its obligations, the Government was also successful in shifting the profile of its outstanding debt in line with cost and risk considerations. Even with lower borrowings, the share of domestic debt has increased to 66 percent from 64 percent a year ago, increasing resiliency against volatility in foreign exchange rates. Meanwhile, low domestic rates reduced the average interest on domestic debt to 5.78 percent from 6.47 percent in 2012 while maintaining a comfortable average maturity of 9.57 years. Debt service metrics has concurrently improved with interest payments taking up a lower percentage of revenues (18.8 percent from 20.4 percent in 2012) and expenditures (17.2 percent from 17.6 percent in 2012), indicating an improved capacity to service obligations while freeing up funds for more productive spending. These gains highlight the improved sustainability of NG debt over the medium-term.

III.
The National Government Expenditure

Obligations

On an obligation basis, the program ceiling on the allotment releases that can be issued from all sources is P2,005.9 billion.

Table 12 Status of the FY 2013 Budget
(in Billion Pesos, unless otherwise indicated)

Particulars	Program [a/]	Releases		Balance
		Amount	% of Program	
New GAA (R.A. No. 10352)	1,250.7	1,215.1 [b/]	97.2	35.6
Departments	969.9	956.3	98.6	13.6
Personnel Services	444.4	445.3	100.2	(0.9)
MOOE	265.0	261.4	98.6	3.6
Capital Outlay	260.5	249.6	95.8	10.8
Special Purpose Funds (SPFs)	280.8	258.8	92.1	22.1
Automatic Appropriations	755.2	723.2	95.8	32.0
Other Releases		63.0 [c/]		
Continuing Appropriations		36.4		(36.4)
Unprogrammed Fund		11.0		(11.0)
Other Automatic Appropriations		15.6		(15.6)
ORIGINAL PROGRAM	2,005.9	2,001.2	99.8	4.7
ADDITIONAL PROGRAM	14.6			14.6
Supplemental Budget (R.A. No. 10634)	14.6			
TOTAL	**2,020.5**	**2,001.2**	99.0	**19.3**

Note:
a/ Adjusted Program due to approved realignments and transfer of appropriations.
b/ Inclusive of P47.487 billion additional releases to departments/SPFs from Budgetary Adjustments
c/ Other releases which were accomodated within the 2013 Expenditure Program

Source: Department of Budget and Management (DBM)

Table 12 shows that the original expenditure program for 2013 was augmented by P14.6 billion, thus, the adjusted program of P2,020.5 billion. The adjustment were accounted for by the enactment of a Supplemental Budget, which was for the relief and rehabilitation services of areas affected by disasters and calamities.

For 2013, the DBM released a total of P2,001.2 billion in allotments or 99 percent of the P2,020.5 billion obligation program (including the Supplemental Budget). Specifically, the DBM issued allotments for 98.6 percent of the department-specific budgets in the FY 2013 General Appropriations Act (GAA), 92.1 percent of Special Purpose Funds (SPFs), and 95.7 percent of Automatic Appropriations, (which was mostly for interest payments (IP) and the Internal Revenue Allotment (IRA) of LGUs). The allotment releases remained within the original program level notwithstanding the enactment of the 2013 Supplemental Appropriations under RA No. 10634 in the amount of P14.6 billion for Typhoon Yolanda and the previous disasters, including the Bohol Earthquake.

Among the significant obligational authorities issued by the DBM for key programs and activities are as follows: 1) DPWH's national arterial and secondary roads and bridges - P71.3 billion; 2) DSWD's Pantawid Pamilyang Pilipino

Program (4Ps) - P44.3 billion; 3) DA's restoration/rehabilitation/ construction of irrigation projects nationwide - P26.8 billion; 4) Comprehensive Agrarian Reform Program - P13.0 billion; 5) DPWH's flood control and drainage projects - P12.4 billion; 6) DA's development of the crops sector - P12.1 billion; 7) DOH's Health Facilities Enhancement Program - P10.8 billion; and 8) DepEd's Basic Educational Facilities Fund - P10.2 billion.

In 2013, some P43.6 billion was released to fund relief, rehabilitation and humanitarian programs in areas hit by natural and man-made calamities. The purposes of these releases are as follows: 1) Typhoon Yolanda - P18.3 billion; 2) Quick Response Fund - P9.9 billion; 3) Typhoon Pablo - P8.5 billion; 4) Zamboanga siege - P2.6 billion; 5) Sabah incident - P0.5 billion; 6) flashfloods - :P0.4 billion; and 7) other calamities - P3.4 billion. For the immediate requirements for those affected by Typhoon Yolanda, one-third of the released amount was for rehabilitation and construction of public infrastructures (P6.2 billion), followed by releases for critical agricultural inputs (P4.1 billion) and for housing and resettlement (P2.2 billion).

With these allotment releases, national government agencies (NGAs), GOCCs and LGUs were able to enter into and fulfill contracts with personnel, contractors, suppliers, service providers, creditors, etc. for the implementation of programs and projects. Obligations incurred by the government amounted to P1,998.4 billion out of the total obligation program of P2,005.9 billion, an obligation rate of 99.62 percent. This is an improvement from 2012's utilization of 97.6 percent, indicating faster fund absorption by the departments/agencies for the implementation of their programs and projects.

Table 13. Enacted vs. Actual Expenditures, By Sector
(in billion pesos, unless otherwise indicated)

Expenditures by Sector	Levels			Obligations as % of GDP	Percent Distribution of Obligations
	Program (GAA)	Actual Obligations	Obligation Rate (%)		
Economic Services	509.2	516.7	101.5	4.5	25.9
Social Services	699.4	712.1	101.8	6.2	35.6
Defense	89.5	87.8	98.1	0.8	4.4
General Public Services	347.3	341.7	98.4	3.0	17.1
Net Lending	26.5	16.6	62.7	0.1	0.8
Interest Payments	333.9	323.4	96.9	2.8	16.2
TOTAL	**2,005.9**	**1,998.4**	**99.62**	**17.30**	**100.0**

Source: FY 2015 BESF

Table 13 shows the general performance of the government by sector, comparing the actual obligations to the enacted GAA levels. Representing one-third of the total budget, the Social Services Sector was provided with a funding support of P699.4 billion. The sector performed well in terms of absorptive capacity, recording obligation of 101.8 percent of the total programmed budget. The key services under the sector are: education, culture and manpower development, health, social security, welfare, and employment, housing and community development. Likewise, the Economic Services Sector recorded 101.5 percent of the total programmed budget. The subsectors that contributed to this outturn were agriculture, agrarian reform, power and energy, communication, roads and transport.

Financial and Physical Performance of Selected Major Programs and Projects, by Department, as of 31 December 2013

Table 14. Enacted vs. Actual Expenditures, Selected Departments
(in Billion Pesos, unless otherwise indicated)

Department	FY 2013 Adjusted Appropriations 1/	As of 31 December 2013		
		Allotments Received 2/	Obligations Incurred 3/	Obligation Rate (%) 4/
Agrarian Reform	19.1	19.1	13.4	*70.4*
Agriculture	74.5	72.4	66.4	*91.7*
Education	299.8	298.8	280.8	*94.0*
Energy	4.9	1.6	1.2	*77.8*
Environment and Natural Resources	29.1	27.7	25.3	*91.1*
Health	49.0	49.0	41.3	*84.2*
Public Works and Highways	230.5	221.4	200.6	*90.6*
Science and Technology	14.2	14.2	13.3	*93.2*
Social Welfare and Development	75.1	75.1	69.6	*92.7*
Transportation and Communications	44.4	43.4	29.0	*66.9*

Notes:

1/ *FY 2013 Adjusted Appropriations pertain to the following: 1) FY 2013 Budget including the Department-Specific Budget, releases to the Department charged against the Special Purpose Funds and Automatic Appropriations; 2) FY 2012 Continuing Appropriations that were released in 2013; and 3) unobligated allotments as of 31 December 2012, which are still valid for obligation until end-2013.*

2/ *Allotments received by the Departments charged against the following: 1) FY 2013 Budget including the Department-Specific Budget, releases to the Department charged against the Special Purpose Funds and Automatic Appropriations; 1) FY 2012 Continuing Appropriations that were released in 2013; and 3) unobligated allotments as of 31 December 2012, which are still valid for obligation until end-2013.*

3/ *Obligations incurred by the Departments in 2013 as reported in the FY 2015 BESF*

4/ *Ratio of obligations incurred to allotments received by departments - measure of absorptive capacity*

Source: Department of Budget and Management (DBM)

Department of Agrarian Reform

- *Financial Performance.* As of 31 December 2013, out of the P19.1 billion allotment received, the department incurred obligations amounting to P13.4 billion, or 70.4 percent obligation rate. This was mostly due to shortfall in meeting some of the targets of Land Acquisition and Distribution and

Agrarian Justice Delivery, two of the components of the Comprehensive Agrarian Reform Program.

- *Physical Performance.* Under Land Acquisition and Distribution, about 125,561 hectares out of the 160 thousand hectares of land target for distribution were covered. On the other hand, undelivered landholdings, which comprised largely those pipelined in 2012, were in the advanced stages of acquisition and distribution, such as generation of emancipation patents and certificate of land ownership awards. An additional 128,145 hectares for pipelining in 2013 and for distribution in 2014 already had approved survey plans, with around 87,641 hectares in various stages of land acquisition process.

  Under the Agrarian Justice Delivery, around 45,258 disputes and conflicts were settled/disposed through the conduct of conciliation/mediation, while 21,640 agrarian cases were resolved through adjudication, both exceeding the full-year targets. Meanwhile, only 648 cases, or 44 percent of the forecast, were disposed or submitted to judicial courts and prosecutors office. This was mainly due to policy shift, wherein judicial representation cases at the central office were being forwarded to the field offices. The policy shift is expected to increase the delivery performance once screening of forwarded cases is completed in the field offices.

  Under Program Beneficiaries Development, some 888 agrarian reform beneficiary organizations (ARBOs) were profiled through the Social Infrastructrure and Local Capacity Building (SICLAB), while 1,046 out of 1,168 target barangays not covered by agrarian reform communities (ARC) were assessed or mapped. A total of 457,248 ARBs, or 116 percent of the target population, participated in gender-responsive capacity development trainings under SICLAB. Also, around 1,135 units of common service facilities were delivered to 385 recipient ARBOs through the Sustainable Agribusiness and Rural Enterprise Development. Moreover, 85,197 project enterprises involving ARBs, or 90 percent of the target, received socialized credit/microfinance assistance amounting to ₱2.4 billion.

  Lastly, under PAMANA-ARA, about 541 out of 630 conflict-affected barangays were provided with peace building projects.

<u>Department of Agriculture</u>

- *Financial Performance.* The total allotment released for DA in 2013 aggregated to P72.4 billion; of which P66.4 billion, or 91.7 percent, had been obligated.

- *Physical Performance.* A total of 671,506 individuals and 9,767 groups were rendered with technical and support services, such as production, marketing, extension support, education and training and research and development through various agricultural programs lodged under the DA-OSEC. Furthermore, around 208,070 farmers were provided access to post-harvest machinery, equipment and facilities and other infrastructure interventions.

Department of Energy

As an indispensable factor in reducing poverty and promoting social equity, sustainable energy delivery and security must be achieved. The DOE plays a vital role in achieving this goal.

- *Financial Performance.* Of the P1.6 billion available allotment[5] for DOE, around 77.8 percent or P1.2 billion was obligated as of 31 December 2013. This was an improvement from the previous year's obligation rate of 67.1 percent.

- *Physical Performance*. Out of the total obligations of the department, around P127 million was for Household Electrification Program in Off-Grid Areas Using Renewable Energy, where various activities such as social preparation activities for the targeted beneficiaries and award of contracts for the installation of photovoltaic systems were conducted by the Department.

Department of Education

- *Financial Performance.* For 2013, a total budgetary support of P298.8 billion was allotted to the Department of Education (DepED). This covered the implementation of the K-12 Program and elimination of gaps in education resources such as classrooms, teachers and textbooks.

  As of 31 December 2013, DepED was able to obligate P280.8 billion or 94.0 percent of the total allotment released. Of this amount, 91.8 percent was for the provision of salaries and benefits of teachers and operations of public schools, and the remaining 8.2 percent was for the implementation of the Basic Education Facilities program, which includes the construction, repair and rehabilitation of classrooms and provision of sanitation facilities and school furniture.

  Obligation of funds was affected by: a) on-going completion of the previous year's target; b) procurement issues on the construction, repair and rehabilitation of classrooms and sanitation facilities, and provision of textbooks and school furnitures; and c) low availment of Government Assistance for Students and Teachers in Private Education (GASTPE) funds.

[5] Available allotment includes releases from the current budget and from continuing appropriations, as well as unobligated allotment as of 31 December 2013.

- *Physical Accomplishments.* For the same period, a total of 16,747 classrooms were constructed, and 4,413 classrooms were repaired/rehabilitated. Moreover, 16,884 water and sanitation facilities were constructed and 1,174 facilities were repaired/rehabilitated. All these activities were funded out of the FY 2012 and FY 2013 Basic Education Facilities Fund and Regular School Building Program.

  With regard to the school furniture component, the DepED was able to purchase 721,919 seats, bringing the total to 2.7 million seats procured/delivered, or 75.5 percent of the target for the period 2010 to 2013.

  Of the 61,510 approved teaching position items, 58,734[6] teaching positions or 95.5 percent was filled up while some 3,384 non-teaching items remained vacant.

  On the provision of textbooks and teacher's manuals, DepED was able to procure and deliver 35.2 million learning materials out of its 38.5 million target for the year, 7 million higher than the original target as a result of a lower unit cost per learning material incurred. In addition, the 2012 requirement of 3.5 million learning materials was partially-achieved with the acquisition of 2.0 million units.

  Science and mathematics equipment were provided only to 442 schools as of December 31, 2013.

  With regard to the GASTPE, a total of 809,212 secondary level grantees were subsidized under the education service contracting scheme and education voucher system. This fell short of the 1 million target grantees mainly due to low availment of the education assistance.

  On the DepED Computerization Program (DCP), ICT packages were distributed to 8,563 schools, representing 72.7 percent of the total target for the said period.

  A total of 1,520 Alternative Learning System (ALS) teachers and District ALS coordinators were provided with laptops, sourced from the 2012 DCP funds.

<u>Department of Environment and Natural Resources</u>

- *Financial Performance.* The allotment released for DENR amounted to P27.7 billion; of which P25.3 billion, or 91.1 percent, had been obligated.

[6] Exclusive of data on the filled-up positions from ARMM

- *Physical Performance.* For the National Greening Program, around 334,821 hectares of forest areas were planted, exceeding the 302,300 hectares targeted for the year. About 24,523,718 seedlings, or 96 percent of the target, were produced for planting in reforestation areas; while 22,511 hectares were surveyed and mapped, achieving almost the full target for the year.

  Meanwhile, about 4,100,529 hectares of untenured forestlands, slightly higher than the target in 2013, were patrolled under Forest Protection Program. In relation to this, around 417 forest protection groups/individuals were formed and strengthened; 190 motorcycles were purchased to be used for patrolling; 71 checkpoints/monitoring stations were modernized and maintained; and 28 training events were conducted.

  For the Unified Mapping Project, the National Mapping and Resource Information Authority had produced Interferometric Synthetic Aperture Radar (IfSAR) images covering 147,964.31 square kilometers (sq. km.) and 54,987 flight lines in Luzon; 59,885.54 sq. km. and 29,467 flight lines in Visayas and Palawan; and 135,626.85 sq. km. and 48,027 flight lines in Mindanao, meeting the target for the year. These IfSAR images were shared with the DOST for its Project NOAH. Similarly, around 85 ground control points (GCPs) in Luzon, 81 GCPs in Visayas and Palawan, and 57 GCPs in Mindanao were surveyed.

<u>Department of Health</u>

- *Financial Performance*. With the core objective of providing every Filipino with efficient, accessible and high quality health services through the Universal Health Care Program, the Department of Health was provided with a total allotment of P49.0 billion, of which P41.2 billion or 84.2 percent had been obligated as of 31 December 2013. The bulk of the allotment released to DOH include: a) Health Facility Enhancement Program (HFEP) – P13.6 billion; b) National Health Insurance Program (NHIP) – P12.6 billion; c) Health Human Resource Program - P2.8 billion, d) Family Health and Responsible Parenting Program – P2.5 billion, e) Expanded Program on Immunization (EPI) – P1.9 billion, and f) TB Control Program – P1.0 billion.

  Essentially, the Department's absorptive capacity was affected by delays in the procurement process since the DOH-Regional Offices including the hospitals in the areas damaged by the calamities such as typhoon Yolanda, earthquake in Bohol, among others, were focused in assisting those localities. Moreover, some contractors in the Health Facilities Enhancement Program (HFEP) were not able to provide progress billings to the Regional Offices concerned.

- *Physical Performance.* The HFEP is important in improving primary health facilities (rural health units, barangay health stations) for preventive health care services including PhilHealth accreditation. The budgetary support provided to HFEP translated to the upgrading of the following: (a) 1,567 BHSs, (b) 2,027 RHUs, (c) 252 LGU hospitals.

  The Philippine Health Insurance Corporation reported that it has covered 5.26 million households identified in the National Household Targeting System (NHTS) under the National Health Insurance Program (NHIP) in 2013. The Program aims to reduce out-of-pocket expenses especially of the poor and marginalized Filipinos.

  Meanwhile, to address the uneven distribution of health human resources in the country, deployment programs such as Doctors to the Barrios, Registered Nurses for Health Enhancement and Local Service) and Rural Health Midwives Placement Program have been continuously implemented. This resulted to the hiring of the following: (a) doctors – 44; (b) nurses 22,500, and (c) midwives - 4,000.

  To respond to micronutrient deficiencies of children under five (5) years of age, vitamin A supplementation was provided to a total of 5.1 million beneficiaries.

  The Expanded Program on Immunization is an important public health intervention to reduce deaths of children less than 5 years old. In 2013, the DOH has provided a total of 2.7 million children with full immunization under the Program.

  In terms of adolescent immunization, a total of 1.9 million 1st - 4th year high school students were immunized with measles, mumps and rubella vaccine (MMR) and tetanus-diphtheria (TD) booster doses.

  Under the Family Planning program, as part of the national mandated priority public health program, provided an estimated 2.1 million women with family planning commodities and services in various local government units.

  With tuberculosis still being one of the leading causes of mortality in the country, the government has continuously provided support to the TB Program, resulting to 180,975 cases being treated in the same year.

<u>Department of Public Works and Highways</u>

As part of its main mandate to construct and maintain national roads and bridges, the Department targets to achieve the full pavement of all the national road network by 2016 and national bridges made permanent by 2015. The Department also supports the climate change adaptation efforts through the construction and maintenance of major flood control systems.

- *Financial Performance.* Of the P221.4 billion available allotment[7] for DPWH, around P200.6 billion or 90.6 percent was obligated as of 31 December 2013. This obligation rate was an improvement from the previous year's obligation of 79.6 percent[8]. The improvement can be attributed to the increased absorptive capacity of 94.3 percent for capital outlays in 2013 from 77.0 percent in 2012.

- *Physical Performance.* From 26,306 km or 84.2 percent of paved national roads in 2012, an additional 1,262 km of national roads were paved in 2013 bringing the total national road paved at around 88.2 percent. Meanwhile, there were some 1,474 lineal meters (lm) of bridges made permanent in 2013, bringing the total to 336,865 lm of bridges. For identified major and principal river basins, around 14.5 percent of the areas were flood-protected in 2013 compared to 13.5 percent in 2012.

<u>Department of Science and Technology</u>

- *Financial Performance.* Based on the 2013 SAOB of DOST, the department has obligated an amount of P13.3 billion, or 93.2 percent, from its allotment of P14.2 billion.

- *Physical Performance.* A total of 29,380 technical/consultancy services and 5,959 technology interventions were rendered to 2,972 firms and associations through Small Enterprise Technology Upgrading Program (SETUP), exceeding the corresponding full-year targets.

  Furthermore, around 10,031 students in the Undergraduate level, 1,744 in the Masters Program and 425 in the Doctoral Program were provided with educational assistance and stipend through various scholarship programs such as the Science and Technology (S&T) Undergraduate Scholarships of the DOST-SEI.

  Meanwhile, several key projects under the National Operational Assessment of Hazards (NOAH) Program were implemented. In July 2013, the Establishment of Flood Information Network (FloodNET), a project that can

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[7] Available allotment includes releases from the current budget and from continuing appropriations, as well as unobligated allotment as of 31 December 2013.
[8] Available allotment includes releases from the current budget and from continuing appropriations, as well as unobligated allotment as of 31 December 2012.

provide flood profile and information of various areas generated from an automated data system, was completed.

The following component projects of NOAH Program were already in the implementation stage: The Initiation of System to Identify, Qualify and Map Storm Surge Threat to Philippine Coast; Phase Two of Development and Deployment of Early Warning System for Deep-Seated Catastrophic Landslides; Enhancing Philippine Landslide Hazard Maps with Light Detection and Ranging (LIDAR) and High-Resolution Imageries; Disaster Management Using Web-Geographical Information Systems (Web-GIS); and Improving Weather Forecasting Through Project NOAH/Weather Information-Integration for System Enhancement (WISE).

Department of Social Welfare and Development

- *Financial Performance.* With the continued effort to empower the poor, vulnerable and disadvantaged, the DSWD was allotted with a total amount of P75.1 billion.

  The department incurred a total obligation amounting to P69.6 billion or 92.7 percent of the released allotments. Bulk of the total obligation was mainly attributed to the implementation of key social protection programs, namely: 1) Pantawid Pamilyang Pilipino Program (4Ps) or Conditional Cash Transfer (CCT) - 63.4 percent; 2) Supplemental Feeding Program (SFP) - 4.1 percent; 3) Self-Employment Assistance-Kaunlaran (SEA-K) - 2.5 percent; and 4) Social Pension for Indigent Senior Citizens - 2.2 percent.

- *Physical Accomplishment of Major Programs/Projects.* As of 31 December 2013, the department has provided grants to 3.9 million CCT household beneficiaries covering 3 percent above the full year target, or an additional 125,625 CCT beneficiaries.

  The cash grants were intended for the health, nutrition and education needs of the beneficiary families, particularly the children. Provision was subject to specific conditions such as school attendance, health checkups in health centers, and parent's attendance to family development sessions.

  For the Supplemental Feeding Program, 1.7 million day care children of the second cycle of the program (SY 2012-2013) and 1.4 million day care children of the third cycle of the program (SY 2013-2014), were served with hot and nutritious meals.

  With regard to the Social Pension Program, 99.4 percent or 254,175 indigent senior citizens aged 77 and above have received monthly stipend of ₱500. This was to augment the daily subsistence and other medical needs of senior citizens, as stipulated in the Republic Act 9994 or the Expanded Senior Citizens Act of 2010.

Under the livelihood intervention program through the SEA-K, 76,847 Pantawid Pamilya and 15,281 Non-Pantawid Pamilya beneficiaries were provided with capital seed fund worth P10,000 per family. Meanwhile, the other 95,139 Pantawid and 4,681 Non-Pantawid pamilya beneficiaries were assisted through partnership with micro-finance institutions, other National Government Agencies and Local Government Units and employment facilitation.

Kapit-Bisig Laban sa Kahirapan-Comprehensive Integrated Delivery of Social Services (KALAHI-CIDSS), one of the Department's community-driven development projects, was able to empower 330,532 or 83 percent of target household beneficiaries through enhanced community participation in the development of community projects.

<u>Department of Transportation and Communications</u>

- Given that the Philippines is an archipelago, the DOTC seeks to provide efficient, effective and secure transportation systems. These systems should be globally competitive and international standards compliant. Most of the projects of the Department are geared towards construction and improvement of various air, sea, and land transportation facilities.

- *Financial Performance.* Of the P43.4 billion available allotment[9] for DOTC, about 66.9 percent or P29.0 billion of the allotments was obligated as of 31 December 2013. This was an improvement from the previous year's obligation rate of 55.4 percent. This can be attributed to a higher obligation rate in capital outlays from 20.3 percent in 2012 to 47.9 percent in 2013, which means that the Department is able to sign in contracts for its various projects.

- *Physical Performance.* Notably, 96.2 percent of the ₱1.5 billion allotted for the Rehabilitation of Ninoy Aquino International Airport Terminal 1 was obligated, which is equivalent to 39.0 percent of total obligations for airports and navigational facilities in locally-funded projects. Meanwhile, P4.9 billion was obligated for railway projects, ₱851 million was obligated for Operations and Maintenance of MRT-3.

[9] Available allotment includes releases from the current budget and from continuing appropriations, as well as unobligated allotment as of 31 December 2013.

IV.
Fiscal Reforms and Future Policy Directions

To foster inclusive growth and economic development, the national government remains committed to the proper management of public finances to ensure transparent, efficient, and accountable administration of government funds.

The government also seeks to further citizen's engagement in the conduct of public financial affairs. For instance, the DBM will expand the Grassroots Participatory Budgeting to cover more local government units in the planning and budgeting of locally-developed projects and programs. Similarly, to enjoin citizens in the conduct of public audit, the Commission on Audit (CoA) will be implementing the Citizen's Participatory Audit Program.

To sustain and enhance revenue effort, the Department of Finance (DOF), Bureau of Internal Revenues (BIR), and Bureau of Customs (BOC) will pursue the following key legislative agenda: the Fiscal Incentives Rationalization Bill, Tax Incentive Management and Transparency Act, Customs Modernization and Tariff Act, Valuation Reform Act, and Fiscal Regime for Mining.

On the expenditure side, the National Budget will keep on investing on the its most important resource - the people - not only by allocating more resources into priority social and economic programs but also by ensuring that these interventions are tailor-fitted to the specific needs of the poorest and most vulnerable localities. Thus, the Budget intends to facilitate the development of key industries that generate more job and livelihood opportunities. Department and agencies will prioritize 44 geographic areas with high poverty incidence and magnitude and increasing vulnerability to natural calamities and disasters.

Through the Performance-Informed Budgeting (PIB) approach, government agencies will reflect on their budget not only financial allocations but also their performance targets.

While increasing commitments on social and economic development priorities, the government will keep spending within its means. This would involve containing fiscal deficit at 2.0 percent of GDP; and reducing the debt stock to 45.6 percent from 52.4 percent in 2010.

On the financial side, with significant progress in the implementation of the Public Financial Management (PFM) Reform Program, the government sees intensify further its components. For instance, the Unified Account Code Structure (UACS) will harmonize all government financial processes- from budgeting, cash management, to accounting and audit - by prescribing a single accounts classification system. This will simplify the collection, consolidation, and reporting of financial transactions across government, which will enable CoA, DBM, and DOF to share a common set of information and, thus, avoiding unnecessary duplications in reports.

To allow the government to consolidate its cash resources on a daily basis, provide timely and accurate reports on funds, and manage cash resources and debt more effectively, the Treasury Single Account (TSA) has been introduced and will remain an integral part of the budget reform agenda.

To integrate all government finances, the DBM is developing a single automated and streamlined system that will serve as a one-stop shop of government financial information throughout the PFM process: budget preparation, management and execution, accounting and financial reporting.

Ultimately, the PFM Reform Program, through its components, will provide the government with accurate and real-time financial reports for better analyses and sound policy decisions.