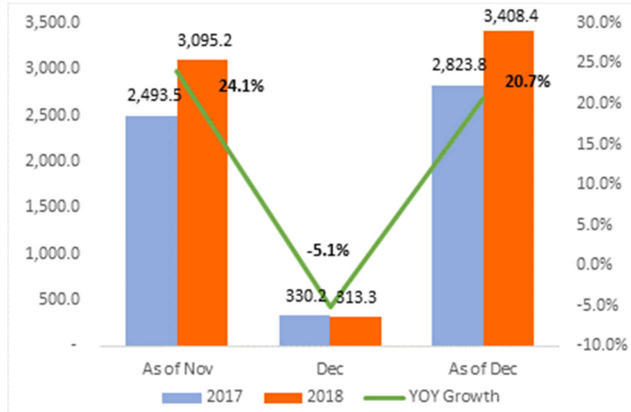
NATIONAL GOVERNMENT DISBURSEMENT PERFORMANCE

AS OF DECEMBER 2018

National Government disbursements were recorded at P313.3 billion in December 2018, down by 5.1 percent year-on-year or P17.0 billion, due to lower subsidy releases in December 2018, and from the base effects of high infrastructure and maintenance expenditures for the same month in 2017.

Figure 1. National Government Disbursements for the Period Indicated

Amounts in billion pesos, unless otherwise indicated



Still, full year 2018 disbursements registered a sizeable 20.7 percent increase or P584.7 billion to reach P3,408.4 billion. For the first time since 2005, disbursements for the year met and marginally exceeded the P3,370.0 billion program by 1.1 percent or P38.5 billion due to substantial public infrastructure spending and higher personnel services (PS) expenditures. This reverses the perennial problem of government underspending in the last 12 years, which reached P302.7 billion (13.3 percent) and P328.3 billion (12.8 percent) in 2014 and 2015, respectively. This is indicative of improved budget execution, better quality of government spending, and faster delivery of public goods and services.

For the Month of December 2018

Government spending in December 2018 declined to P313.3 billion from P330.2 billion a year ago due to lower subsidies and equity contributions to government corporations, reduced maintenance expenditures, and stronger interest payments and tax expenditure subsidies.

Table 1. National Government Disbursements for the Month of December 2018

Amounts in billion pesos, unless otherwise indicated

Expenditure Class	December			
	2017	2018	Increase/(Decrease) Amt	%
CURRENT OPERATING EXP.	239.3	230.3	(9.0)	*(3.8)*
Personnel Services	91.7	102.5	10.8	*11.8*
MOOE	62.3	55.5	(6.8)	*(11.0)*
Subsidy	31.2	2.2	(29.0)	*(93.0)*
Allotment to LGUs	32.7	34.9	2.2	*6.9*
IP	20.6	29.2	8.7	*42.1*
TEF	0.9	6.1	5.2	*572.9*
CAPITAL OUTLAYS	95.0	84.5	(10.5)	*(11.0)*
Infra and Other CO	82.3	75.6	(6.7)	*(8.2)*
Equity	0.7	0.0	(0.6)	*(96.4)*
Capital Transfers to LGUs	12.1	8.9	(3.1)	*(25.9)*
NET LENDING	(4.1)	(1.6)	2.5	*(60.3)*
TOTAL	**330.2**	**313.3**	**(17.0)**	***(5.1)***

Program support to GOCCs for the month of December last year reached only P2.2 billion compared to P31.2 billion a year ago. It may be recalled that in December 2017, some P13.1 billion and P7.6 billion government subsidies were released to the PHIC for the *National Health Insurance Program,* and to NHA for its housing programs, respectively. In contrast, the subsidy to PHIC was already released during the earlier months of 2018. Meanwhile, the release of subsidy to NHA is expected to be made within the first quarter of 2019.

Maintenance expenditures dropped by 11.0 percent to P55.5 billion in December 2018 from P62.3 billion for the same month in 2017 mainly due to the absence of similar big-ticket releases made in 2017 for the Performance Challenge Fund of the DILG, Marawi relief operations under the DSWD, and the *Payapa at Masaganang Pamayanan* Program of the OPAPP.

Similarly, infrastructure and other capital outlays in December last year were down by 8.2 percent or P6.7 billion to P75.6 billion. The contraction is attributed to the base effect of high infrastructure expenditures in December 2017 which reached P82.3 billion and recorded a substantial growth rate of 23.0 percent. The low infrastructure disbursements were partly contributed by the ongoing processing of payments for completed infrastructure projects of the DPWH.

On the one hand, PS expenditures continued to be strong reaching P102.5 billion in December 2018, 11.8 percent higher year-on-year or P10.8 billion due to the increase in the salaries of government civilian workers and military and uniformed personnel, the creation and filling of positions in various agencies, the release of performance-based bonus in the AFP-Philippine Army, and payment of pension and retirement benefits of retirees.

Likewise, interest payments (IP) grew by 42.1 percent to reach P29.2 billion due to coupon payments for newly issued retail treasury bonds. Tax expenditures, meanwhile, surged by more than five times to P6.1 billion largely on account of the P4.3 billion tax subsidy to NFA for its rice importation program to ensure adequate rice inventory and help lower food inflation.

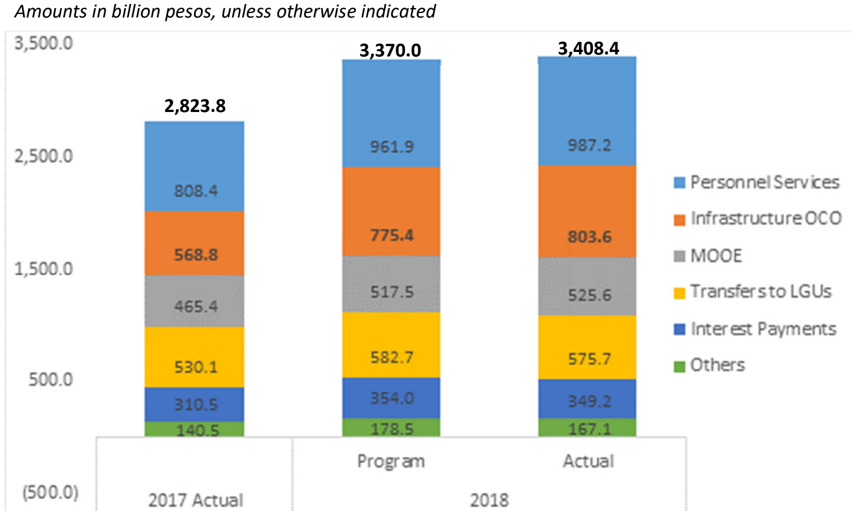
For the Period January to December 2018

As of end-December 2018, government spending for 2018 closed at P3.408 trillion, rising by 20.7 percent year-on-year or P584.7 billion, and surpassing the P3.370 trillion target for the year by 1.1 percent or P38.5 billion. The solid disbursement performance was largely driven by the massive government infrastructure and PS expenditures, which combined to account for more than half of the year's total spending and contributed nearly three fourths of the additional disbursements for the year.

Infrastructure and other capital outlays reached P803.6 billion in 2018, reflecting a whopping 41.3 percent increase or P234.9 billion from the 2017 levels. It also bested the P775.4 billion program for the year by 3.6 percent or P28.3 billion as implementation of various infrastructure projects gained speed amidst the shift to one-year validity of appropriations and the cleaning of prior years' accounts payables in transition to the cash-based budget this 2019.

Figure 2. National Government Disbursements for the Period Indicated, by Major Expense Items

Amounts in billion pesos, unless otherwise indicated



In particular, disbursements of the DPWH, the main infrastructure arm of the government, rose significantly to P538.2 billion[1], up by 46.0 percent year-on-year. Tabulated below are the major types of infrastructure programs or projects of the DPWH and other big-spending departments:

Department/Agency	Programs/Projects
DPWH	Road and bridge networks, including road widening, improvement and rehabilitation works, flood control projects
DND	AFP Modernization Projects, consisting of acquisition of transport and combat equipment, navigational and communication facilities
DepEd	Repair and rehabilitation of school buildings and facilities, DepEd Computerization Program
DOH	Construction, repair of health facilities and acquisition of various medical equipment

Including the program support to GOCCs and transfers to LGUs intended for infrastructure expenditures, the infrastructure program of the government registered at P886.2 billion or 5.1 percent of GDP. This compares with the targeted infrastructure spending of P868.8 billion or 5.0 percent of GDP for the year.

PS expenditures climbed to P987.2 billion from P808.4 billion a year ago due to the impact of higher base pay and benefits of state workers, including the military and uniformed personnel by virtue of EO 201, s2016 and JR. No. 1, s2018. Similarly, PS expenses topped the P961.9 billion program for the year by 2.6 percent or P25.3 billion owing to faster fill up rates for creation and filling of positions in the DepEd and other agencies, as well as the payment of pension differentials in the DND.

Maintenance and other operating expenditures reached P525.6 billion, 12.9 percent or P60.2 billion more than the P465.4 billion actual levels in 2017 as a result of increased social services expenditures such as basic and tertiary education, health banner programs, and Conditional Cash Transfers. It likewise exceeded the P517.5 billion target for the year by 1.6 percent or P8.2 billion due to payments for prior year's obligations of the DepEd for GASTPE[2] and other educational assistance programs and the DA for its National Rice Program and Fisheries Program under the BFAR; procurement of medical commodities (e.g., vaccines, drugs/medicines and medical supplies) by the DOH; and releases to the ARMM for its shares from National Government revenues and fund transfers for the implementation of social protection programs in the region.

Combined allotment and capital transfers to LGUs totaled P575.7 billion, up by 8.6 percent year-on-year or P45.5 billion owing to the higher shares of LGUs from the internal revenue collections of the National Government, special shares from the proceeds of national taxes, as well as infrastructure transfers (e.g., Conditional Matching Grants, Assistance to Municipalities and *SALINTUBIG*[3] Program) from the Local Government Support Fund. However, it fell below the P582.7 billion program for the year mainly due to minimal releases from the regular financial subsidy to LGUs and Assistance to Cities.

Meanwhile, tax expenditures reached P21.6 billion in 2018, P13.3 billion or more than twice the amount in 2017 in view of the substantial rice importation requirements of the NFA, which as previously mentioned, aimed to address the rice supply shortage during the second semester and help bring down food prices.

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[1] Based on negotiated checks per consolidated reports of government servicing banks as of December 31, 2018.
[2] Government Assistance to Students and Teachers in Private Education, a form of educational grant or subsidy.
[3] *Sagana at Ligtas na Tubig Para sa Lahat* or provision of potable water supply project.

Interest payments for 2018 amounted to P349.2 billion, higher by 12.5 percent year-on-year or P38.7 billion due to the bigger financing requirements for the year, coupon payments for newly issued bonds and other debt instruments, and combined impact of heightened interest and foreign currency environment. Nevertheless, IP were lower when compared to the P354.0 billion program for the year, still generating some P4.8 billion savings. Likewise, its share to total disbursements declined to 10.2 percent from 11.0 percent in 2017. This is credited to the debt liability management strategies implemented by the government, retiring more expensive loans and favoring local currency-denominated debt to minimize exposure to foreign exchange rate volatility.

Net lending assistance to government corporations in 2018 reached P4.9 billion, up from the P4.2 billion net repayments recorded in 2017 due to the advances to NFA (P6.6 billion), LRTA (P2.4 billion) and NIA-Casecnan (P1.4 billion). Despite the said increase, net lending for 2018 was still below the P13.8 billion program owing to repayments made by MWSS (P1.9 billion), NLRC (P1.5 billion), NDC (P1.2 billion) and other government corporations (P1.3 billion) totaling P5.9 billion.

Full Year 2018 Deficit

Despite disbursements reaching P3.408 trillion (or 1.1 percent above program), with National Government revenues registering a favorable P2.850 trillion (or 0.1 percent above program), the fiscal deficit was recorded at P558.3 billion. This deficit is equivalent to 3.2 percent of GDP, slightly above the 3.0 percent of GDP program for the year. The fiscal gap widened by 59.2 percent or P207.6 billion and exceeded the target by 6.6 percent or P34.6 billion behind more robust and quicker government expenditures. Besides the heavier public spending, the lower-than-expected economic growth (6.2 percent vs. 6.5 percent target) resulted in a higher deficit-to-GDP ratio during the period.

Outlook for 2019

The disbursement program for 2019 is set at P3.824 trillion[4], 12.2 percent or P415.7 billion more than the 2018 actual outturns. This is equivalent to 19.6 percent of the projected nominal GDP for 2019. Spending for this year will continue to invest heavily in social services programs and public infrastructures to raise the 6.2 percent economic growth in 2018 and attain at least 7.0 percent economic growth over the medium term.

While the delays in the passage on the 2019 Budget could impede the attainment of this spending commitment, the government remains committed to deliver its target and to enable agencies to catch up once the 2019 Budget is enacted into law. Hence, while the government is currently operating on a reenacted budget, on February 8, 2019 Congress had approved the 2019 Budget, paving the way for the subsequent enactment and signing by the President in early March this year.

Steps have been undertaken to minimize the impact of this delay on government productivity and the economy as a whole. The DBM issued Circular Letter No. 2019-1 to guide agencies with the Reenacted Budget. The issuance prescribes guidelines on the obligational authority and release of funds for the first quarter of FY 2019 pending the enactment of the 2019 Budget, allowing the release of capital outlays as needed by the agencies based on the status of program preparation. Likewise, the Government Procurement Policy Board (GPPB) issued Circular 09-2018 to guide implementing agencies on the award of contracts undertaken through Early Procurement Activities under a

[4] Projections consistent with the assumptions approved during the Special DBCC Meeting on November 29, 2018.

Reenacted Budget to ensure smooth and continuous implementation pending the enactment of the 2019 GAA and avoid the need for rebiddings. The DBM and GPPB-Technical Support Office conducted department- wide briefings on these two circulars last January 24 to 25, 2019.

The Economic Managers are also seeking the exemption from COMELEC of some 145 major national infrastructure projects from the local election ban to facilitate timely implementation, provide more employment opportunities particularly in the construction sector, and contribute to overall economic growth.

The government will continuously monitor macro-fiscal developments both from the external and domestic fronts, carefully assessing how macroeconomic issues such as inflation, global crude oil prices and trade tensions, as well as the progress of pending tax reform and other expenditure measures in Congress could affect the country's growth and fiscal targets. The government will respond with appropriate measures and policy settings that would potentially address or minimize these risks to the government expenditure program, especially on infrastructure projects.
