Republic of the Philippines
Development Budget Coordination Committee
Malacañang, Manila

Mid-Year Report on the 2013 National Budget

30 September 2013

Introduction

National Budgeting under the Aquino Administration is being transformed to achieve greater transparency, accountability and citizen's participation in the financial affairs of the national government. The Development Budget Coordination Committee (DBCC)—the inter-agency body mandated to determine, coordinate and assess national government fiscal and budget policy—embraces this reform direction: it believes that fiscal soundness and economic development that benefits the people can only be achieved through good governance.

With the goal of introducing greater fiscal transparency, the DBCC is pleased to present, for the first time, this Mid-Year Report on the Budget for fiscal year 2013.

The Mid-Year Report is one of the essential budget documents that governments must produce according to international fiscal transparency standards and best practices. The International Budget Partnership (IBP) defines such report as "an analysis of the budget's effects provided about halfway through the budget year… (it) represents an opportunity to comprehensively assess a government's fiscal performance against the strategy established in the Enacted Budget. "

Beyond meeting international benchmarks, the DBCC hopes that the publication of this Mid-Year Report contributes to increasing citizen's access to information on how public funds are spent by the government, as well as their capacity to hold government and its agencies to account for their performance. Moreover, as this is the first publication of such report, the DBCC would gladly receive feedback and suggestions from the public.

This Mid-Year Report for Fiscal 2013 tackles the following:

- An overview of the principles and policy reforms that designed the 2013 National Budget, dubbed the "Empowerment Budget;"

- Discussions on the macroeconomic environment and the performance of revenues, disbursements and financing, both year-on-year and against program. On disbursements, a key feature are discussions on the performance of key service delivery departments; and

- Discussion of the macroeconomic and fiscal outlook for the rest of 2013.

The National Budget is an eloquent expression of any government's commitment to its socio-economic development agenda. The Aquino Administration has been pursuing a poverty reduction and inclusive growth agenda founded on good governance. DBCC is thus committed to ensuring that the annual National Budgets—and how it is implemented and reported—achieve spending within means, on the right priorities and with measurable results. This Mid-Year Report is one such tool to achieve such objective.

I. The National Government Budget

In his Budget Message to Congress, President Benigno S. Aquino III described the 2013 National Budget as a Budget for Empowerment. He said, "This Budget pursues empowerment by creating more opportunities for public participation in governance. It invests significantly in the people's capabilities by prioritizing funding for public services that provide jobs, educate our youth, ensure a healthier citizenry, and empower each Filipino to participate in economic activity… this is the Budget that the Filipino people entrusted to us; and this is the budget that will be the framework of our efforts to give our people a government that truly works for them."

The Budget for 2013 was crafted by the Executive, and later on approved by Congress, guided by the following principles and key reforms:

- <u>Greater and Deeper Commitment to the Social Contract</u> – the 2013 Budget was crafted to provide greater funding focus on the priority areas defined by President Aquino in his Social Contract with the Filipino People: Transparent, Accountable and Participatory Governance; Poverty Reduction and Empowerment of the Poor and Vulnerable; Rapid, Inclusive and Sustained Economic Growth; Just and Lasting Peace and the Rule of Law; and Integrity of the Environment and Climate Change Adaptation and Mitigation. To ensure optimal prioritization, the government introduced the Program Budgeting Approach in order to align the Budget to strategic development objectives as well as intended results. In addition, the continued use of Zero-Based Budgeting ensured that programs and projects being funded are efficient and effective.

- <u>Accelerated Completion of Priority Program Targets</u> – in order to support the timely fulfilment of the Social Contract, various policy measures were adopted in the Budget. This include designating the Department of Public Works and Highways (DPWH) as the principal infrastructure agency so that infrastructure projects are implemented by the most competent agency; and so that line Departments can focus on their core deliverables, such as improved learning outcomes by the Department of Education (DepEd) and better health services by the Department of Health (DoH). In addition, mechanisms were introduced to ensure closer performance monitoring, including the deployment of Account Management Teams (AMTs) in key Departments.

- <u>Strengthening Government Accountability to Perform</u> – the National Budget must be used as a key instrument in strengthening the accountability of public institutions, raising integrity standards as well as performance benchmarks. Thus, reforms were pursued to deepen performance budgeting and performance management: the harmonization of performance management systems in government; the review of agencies' outcome and output indicators under the Organizational Performance Indicator Framework (OPIF); and the introduction of a system for performance-based bonuses.

- <u>Fiscal Transparency for Faster, Clearer Results</u> – Transparency does not only deter corruption but also enables faster and clearer results in public spending. With this, key steps were taken to making the General Appropriations Act (GAA) itself serve as the release document in order to minimize the tedious and repetitive process of budget releases. These include the fleshing-out of the Budget in as much detail as possible as well as the reduction of lump-sum funds, and the one-year validity of appropriations to introduce greater funding predictability. Moreover, technological innovations were leveraged to enable speedier and more transparent processes through, among others, the development of the Government Integrated Financial Management Information System which is targeted for completion by 2016.

- Deepening Participation in Public Expenditure – the 2013 Budget deepens government's engagement with the public. For one, Bottom-Up Budgeting was introduced, where 593 poorest municipalities developed local poverty reduction programs together with their local communities and civil society organizations (CSO), and where P8.37 billion in these local programs were included in the 2013 Budget. The process of Agency-CSO Budget Partnerships was also expanded from nine departments and government corporations to 18. Moreover, Public-Private Partnerships (PPPs) were leveraged for the faster delivery of social services, such as classrooms and health facilities.

The 2013 Budget and the principles and reforms that shaped it were deeply rooted in the people's clamor for reform. As President Aquino said, "*Malinaw ang Atas ng Taumbayan: siguruhin na ang bawat piso ay nagagamit nang tama at nagdudulot ng makabuluhang benepisyo sa kanilang buhay… Ipinagkatiwala nila sa atin ang kapangyarihang ating pasan—kabilang ang kapangyarihan sa kaban ng bayan—upang gamitin ito para sa kanilang ikauunlad.*"

II. Macroeconomic and Fiscal Performance

a. Macroeconomic Environment

In the first half of 2013, the Philippine economy grew by 7.6 percent, way above the real GDP growth assumption of 6.0 to 7.0 percent for full year 2013 that was approved by the Development Budget Coordination Committee (DBCC). With this growth, the Philippines is one of the best performing economies in the region, growing at par with the People's Republic of China (7.6%), and faster compared to Indonesia (5.9%), Vietnam (4.9%), Malaysia (4.2%), and Thailand (4.1%).

The output growth during this period was primarily driven by the services and industry sectors, which contributed 4.1 and 3.4 percentage points (ppts) respectively to real GDP growth on the supply side; and by household final consumption, fixed capital formation, and government consumption, which contributed 3.7, 2.5, and 1.8 percentage points (ppts) respectively on the demand-side. The growth in the first semester was also buoyed by higher investor and consumer confidence, greater infrastructure activities, favorable interest rates, stable inflation, inbound tourism, and an optimistic domestic economic outlook.

Table 1. Comparison of Real GDP Growth Rate,
1st Semester 2013 vs. FY 2012 Actual and FY 2013 Growth Assumption

Particulars	2012 Actual	2013	
		Full Year Growth Assumption	First Semester Actual
Real GDP Growth Rate (%)	6.8	6.0-7.0	7.6

Source: BESF 2014

Growth on the supply side was mainly propelled by manufacturing, construction, trade, financial intermediation, real estate, renting and business activities (which includes business process management), and other services (which includes tourism).

- *Agriculture, hunting, fishery and forestry (AHFF)*. In the first half of 2013, AHFF grew only by 1.4 percent as its strong 3.1 percent growth in the first quarter was pulled down by the 0.3 percent contraction in the second quarter of the year. The weak growth of AHFF in the first semester of 2013 was mainly due to the decline in the production of banana, sugarcane, corn, coffee, and coconut. These were offset by the fishing subsector, which showed a revival with a 4.6 percent growth, from a 3.1 percent contraction in the same period in 2012, as well as the strong growth of poultry, livestock and palay.

- *Industry*. The impressive growth of the industry sector in the first semester of 2013 is heavily driven by the manufacturing and construction subsectors. The high growth in food manufactures; chemicals and chemical products; radio, television and communication equipment; furniture and fixtures; and basic metals buoyed the manufacturing sector, offsetting the contraction experienced by petroleum and other fuel products, textile manufactures, and transport equipment subsectors. Meanwhile, the double-digit growth in both public and private construction helped propel a strong growth for the industry. These were due to the implementation of government infrastructure projects and the continued high demand for residential and office spaces by overseas Filipinos (OF) and their families and the outsourcing and off-shoring activities in the business districts.

- *Services*. Improved consumer confidence, low and stable inflation rate, continued strong inflow of OF remittances, and continued increase in employment fuelled the growth for trade, particularly retail trade. A strong and resilient bank and non-bank financial intermediaries amid uncertainties in external markets presented a viable place to park investment funds and this contributed to the services sector's growth during the period. The business process outsourcing (BPO) industry has also driven growth not only in business activities but also real estate, in its demand for office spaces and resulting demand for high end residential units in the business districts. OFs and their families are also part of the large demand for residential units. Finally, the active promotion of tourist spots and activities in the Philippines has led to the accelerated growth in other services, particularly in recreational, cultural, and sporting activities and hotels and restaurants. Education also contributed significantly to this sector.

On the demand side, the main contributors to growth were government final consumption, household consumption on food and non-alcoholic beverages, private construction, durable equipment, and public construction.

- *Household final consumption expenditure (HFCE)*. Household spending on food and non-alcoholic beverage, transportation, and restaurants and hotels were the top contributors to household final consumption expenditure in the first semester of 2013. The moderate movement in consumer prices, increased total employment, a still positive growth of OF remittances, and additional election-related spending are some of the factors that pushed the household consumption growth during the period.

- *Government final consumption expenditure (GFCE)*. Government spending increased due to the implementation of the 4th tranche of the Salary Standardization Law 3 (SSL 3), social programs such as the Pantawid Pamilyang Pilipino Program (4Ps), clean water, health, and several agricultural initiatives.

- *Capital formation (CF)*. Capital formation posted an almost 30 percent growth in the first semester of 2013 and this was mainly due to fixed capital, which recorded a double-digit expansion due to construction efforts--both public and private--and investments in durable equipment. These reflect the high level of investors' confidence and the remarkable increase in infrastructure development that is being undertaken by the public sector, made possible by greater fiscal space resulting from improved fiscal position of the national government.

- *Net exports*. Due to weak demand for semiconductors partly caused by a shift in consumer preference from personal computers to mobile devices, both imports and exports of goods contracted in the first half of 2013. Nevertheless, increasing shares to total exports are observed in automotive electronics, agriculture and fishery products, and petroleum products. Meanwhile, net exports in services also contracted due to a decline in miscellaneous exports as well as an increase in travel and miscellaneous services imports.

As the domestic economy continued its vigorous expansion in the first half of 2013, price pressures were benign during the first half of the year as inflation averaged 2.9 percent, near the low-end of the 4 percent ± 1 percentage point target for 2013. Consequently, along with ample domestic liquidity and better fiscal performance, domestic interest rates declined in both primary and secondary markets. The 364-day T-bill in the primary market averaged 0.73 percent during the review period, significantly lower than the 2.6 percent average for the same period in 2012. The peso was also stronger relative to the assumption during the first half of the year on the back of strong remittances from overseas Filipinos, robust earnings from business process outsourcing, and increased tourist receipts. The peso's strength was enhanced further by the credit rating upgrades to investment grade given by Fitch and Standard and Poor's in March and May, respectively.

Table 2. Selected Macroeconomic Indicators

Particulars	2013 DBCC Assumtptions*	Actual January-June 2013
Real GDP growth	6.0-7.0	7.6
Inflation	3.0-5.0	2.9
364-day T-bill rate [a/]	2.0-4.0	0.7
Exchange rate *(PhP/USD, period average)*	42.00-45.00	41.24
LIBOR (6 months)	0.5-1.5	0.5
Dubai crude oil price *(USD/barrel)*	90.00-110.00	104.48
Merchandise exports growth [b/]	10.0	4.2
Merchandise imports growth [b/]	12.0	-4.4

* As approved by the DBCC through ad referendum dated 21 January 2013
a/ Based on primary market rates
b/ Based on the Balance of Payments Manual 6 (BPM6) concept

Meanwhile, the global economic growth remained weak during the first half of the year. This was evident in the low actual LIBOR rates during the review period as central banks of major economies continued to pursue an accommodative monetary policy stance to support economic activity. The weak world economic growth led to lackluster demand for the country's electronic products, causing domestic exports and imports growth rates to slow down. Meanwhile, the price per barrel of Dubai crude oil in the first six months of 2013 remained within the government assumption, owing mainly to increased non-OPEC production (largely in North America) which outpaced global oil consumption.

b. Fiscal Performance

For the first half of 2013, the national government (NG) incurred a deficit of P51.3 billion, higher than the budget gap last year by nearly 50 percent (from

P34.4 billion from January to June 2012). On the other hand, the cumulative deficit was less than the program by P33.4 billion or 39.4 percent, given the revenue shortfall of P21.6 billion (or 2.5%) and lower-than-programmed spending by P54.9 billion (or 5.8%).

Revenue Performance

For the same period, total revenues grew by 10.3 percent to P839.5 billion from 2012. This improvement in total tax collections was a result of more efficient tax administration efforts of our major collecting agencies.

Table 3. Revenue Performance as of the 1st Semester, 2013

NG Fiscal Position (In Billion Pesos)	2012 Jan-Jun	2013 Jan-Jun		% Growth
	Actual	Program	Actual	
Total Revenues	760.9	861.0	839.5	10.3%
Tax Revenues	671.5	791.4	746.3	11.1%
BIR	521.2	620.3	593.7	13.9%
BOC	143.4	163.9	145.1	1.2%
Other Offices	6.9	7.2	7.5	8.8%
Non-Tax Revenues	89.4	69.7	93.1	4.2%
BTr Income	50.2	31.6	49.5	-1.4%
Disbursements	795.4	945.7	890.8	12.0%
Surplus/(Deficit)	(34.5)	(84.7)	(51.3)	48.7%.

The Bureau of Internal Revenue (BIR), which accounts for about 70 percent of state tax revenues, collected a total of P593.7 billion, 13.9 percent higher from last year's actual collections of P521.2 billion. The amount already reflects the impact of the Sin Tax Law implementation. In line with the Run Against Tax Evaders (RATE) program, the bureau has filed a total of 170 cases as of June 2013 with corresponding total tax liabilities of P42.8 billion.

The Bureau of Customs (BOC) cash collections for the first six months amounted to P145.1 billion, growing by 1.2 percent year-on-year. In line with the Run After the Smugglers (RATS) program, a total of 138 cases have been filed by the bureau as of June 20, 2013, with corresponding liabilities (both tax and duties) of P25.9 billion.

The Bureau of the Treasury (BTr), on the other hand, recorded an income of P49.5 billion in the first semester, exceeding its first semester target by P17.9 billion.

Sin Tax Reform has already boosted revenues for the first six months of 2013. The 13.9 percent revenue growth of BIR already reflects the impact of the Sin Tax Law.

Excise tax revenue collections from alcohol and tobacco increased by 46.1 percent, January to June, year on year. The significant increase in collections came even with an equally significant drop in the volume of cigarettes and alcohol produced in the market.

Excise tax collections on tobacco products for the first six months of 2013 increased by 53.1 percent or P7.8 billion to reach P22.4 billion. This is notwithstanding the 43.3 percent decline in the volume of production. Following the same trend, excise collections on alcohol products grew by 37.3 percent or P4.4 billion even with the 11.3 percent and 15.6 percent decline in the volume of fermented liquors and distilled spirits, respectively.

Table 4. Performance of Excise Tax Collections

Excise Tax Collections Based on Actual Payments (in Billion Pesos	Jan-Jun		% Growth
	2012	2013	
Tobacco	14.6	22.4	53.1%
Alcohol	11.8	16.2	37.3%
TOTAL	26.4	28.5	46.1%

Expenditure Performance

Consistent with the full-year deficit cap of 2.0 percent of GDP or P238.0 billion for 2013, national government disbursements[1] for 2013 are projected to reach P1.984 trillion, equivalent to 16.7 percent of GDP. This corresponds to a P206.1 billion increase or a growth of 11.6 percent from the 2012 outturn of P1.778 trillion.

Table 5. FY 2013 Disbursement Program

Particulars	Levels (in billions)		Percent of GDP		Growth Rate
	2012 Actual	2013 Program	2012 Actual	2013 Program	
REVENUES	**1,534.9**	**1,745.9**	**14.5**	**14.7**	**13.7**
DISBURSEMENTS	**1,777.8**	**1,983.9**	**16.8**	**16.7**	**11.6**
Current Operating Exp.	1,411.0	1,588.4	13.4	13.3	12.6
Personnel Services	542.6	624.4	5.1	5.2	15.1
MOOE	256.7	317.9	2.4	2.7	23.8
Subsidy	42.1	45.0	0.4	0.4	6.8
Allotment to LGUs	218.6	241.8	2.1	2.0	10.6
Interest Payments	312.8	332.2	3.0	2.8	6.2
Tax Expenditures	38.1	26.9	0.4	0.2	(29.4)
Capital Outlays	339.3	381.0	3.2	3.2	12.3
Infrastructure/Other CO	250.8	303.4	2.4	2.5	21.0
Equity	21.3	1.3	0.2	0.0	(93.8)
Capital Transfers to LGUs	67.2	76.3	0.6	0.6	13.5
Net Lending	27.4	14.5	0.3	0.1	(47.1)
SURPLUS/(DEFICIT)	**(242.8)**	**(238.0)**	**(2.3)**	**(2.0)**	**(2.0)**

Current operating expenditures will still grab the bulk of the budget pie, growing year-on-year by 12.6 percent, largely on account of the increased provision for social spending such as Pantawid Pamilyang Pilipino Program of the DSWD, priority projects in the health sector geared to attain the Millennium Development Goals, peace building and development in conflict-affected areas, among others, as well as the annualized implementation of the last tranche of

[1] Disbursement is defined as the actual settlement of government obligations, which are paid either in currency, check or constructive cash.

the SSL 3 and the increase in the mandated share of LGUs or the Internal Revenue Allotment (IRA). Likewise, capital outlays (CO) will rise by 12.3 percent to reach P381.0 billion, equivalent to 3.2 percent of GDP with the increased support for transport infrastructure, agricultural development, and infrastructure support to tourism, education, and health sectors.

This disbursement program reflects the projected payments to be made by the national government for goods delivered and services rendered in the implementation of programs and projects. This will be greatly influenced by the level of obligations and contracts entered into by the government through the implementing departments and agencies.

Allotments

In terms of obligations, the programmed ceiling on the allotment releases[2] that can be issued from all sources, is P2.006 trillion. This is higher by 9.7 percent than the actual obligations in 2012 which amounted to P1.829 trillion.

Table 6. Status of the FY 2013 Budget as of 30 June 2013
In billion pesos (unless otherwise indicated)

Particulars	Program	Releases		Balance
		Amount	% of Program	
New GAA (R.A. No. 10352)	1,250.7	1,048.4	83.8%	202.3
Departments	965.1	922.6	95.6%	42.5
Personnel Services	444.3	442.9	99.7%	1.42
MOOE	257.9	252.5	97.9%	5.40
Capital Outlays	262.9	227.3	86.4%	35.68
Special Purpose Funds (SPFs)	285.6	125.7	44.0%	159.83
Automatic Appropriations	755.2	688.3	91.1%	66.88
Other Releases	-	32.7		(32.7)
Continuing Appropriations		24.3		(24.30)
Unprogrammed Fund		0.2		(0.17)
Other Automatic Appropriations		8.2		(8.21)
TOTAL	2,005.9	1,769.4	88.2%	236.5

For the first semester this year, out of the obligation program of P2.006 trillion, allotment releases reached P1.769 trillion, or 88.2 percent of the total obligation program, which is 28.0 percent higher than the actual releases for the first semester last year. The DBM has issued almost 95.6 percent of the total budget of the departments and agencies; 44.0 percent of Special Purpose Funds; and 91.1 percent of Automatic Appropriations, with bulk for Interest Payments (IP) and IRA amounting to P636.2 billion combined.

By allotment class, the biggest increase in terms of released allotments was recorded under capital outlays, which grew by 40.0 percent this year with P227.3 billion in allotments issued, as against P162.3 billion for the same period last year. Among the departments with substantial allotment releases in the first semester for infrastructure projects are DPWH (from P94.0 billion in 2012 to P134.0 billion this year), DOTC (from P8.8 billion in 2012 to P16.1 billion in

[2] Allotments are obligational authorities issued by the DBM to agencies for them to start implementing programs and projects, i.e., basis to enter into contracts/commitments or incur obligations.

2013), DA (from P28.2 billion in 2012 to P35.9 billion in 2013), and DOH (from P5.4 billion in 2012 to P11.1 billion in 2013).

Obligations

One way to gauge the departments' financial performance is through the use of obligation rates--i.e., comparing actual obligations against allotments available to the departments/agencies. This indicates the pace at which departments/agencies are able to absorb the funds made available for the implementation of their programs and projects.

As of 30 June 2013, the total allotment available for obligation by the departments/agencies consists of the allotments released from January to June 2013 which amounted to P1.769 trillion, and the unobligated allotment as of 31 December 2012 in the amount of P146.1 billion, which is still valid for obligation this year, given the two-year validity of 2012 appropriations (R.A. No. 10155).

Out of the total available allotment of P1.916 trillion, obligations incurred by departments/agencies reached P934.4 billion[3] or an average obligation rate of 48.8 percent, close to the benchmark of 50 percent for the first half of the year (based on calendar months). However, the resulting average obligation rate could not be taken at face value. This is because a huge portion of the available allotments covering full-year funding requirements were comprehensively released during the first semester, while the obligations are effectively incurred during the first semester. Moreover, other factors, such as seasonality and timing of release, as well as the uneven submission of data on actual obligations by some departments, also impact on the overall obligation rate.

Table 7. FY 2013 Allotments and Obligations as of 30 June 2013
In billion pesos

Particulars	2013
Obligation Program	2,005.9
Available Allotment	1,915.5
Releases made in 2013	1,769.4
Unobligated allotment as of 12/31/2012	146.1
Obligations Incurred	934.4
Obligation Rate	48.8%

The top five performer departments that registered obligation rates above the 50 percent benchmark for the first semester are DA (64.5%), DPWH (60.5%), DBM (57.4%), OP (53.5%), and DOST (52.9%). The lowest five departments[4] in terms of obligation rates are DOTC (16.1%), DOLE (33.0%), JLEC (34.1%), DTI (38.0%), and DSWD (38.7%).

Utilization of Disbursement Authorities

To cover the liquidation of obligations incurred, the DBM issues disbursement authorities such as Notice of Cash Allocation (NCA), Cash

[3] Sources of Data: DBM Report on Allotments and Department/Agencies' Reports on Obligations, as posted in the DBM website under e-Fund Releases.
[4] Low obligation rates were also reported on the DBM website for NEDA, Congress of the Philippines, and DOF due to incomplete submission of Statement of Allotments, Obligations and Balances as of June 2013.

Disbursement Ceiling (CDC) and Non-Cash Availment Authority (NCAA). As of 30 June 2013, almost 75 percent of NG disbursements are through the issuance of NCAs to spending departments and agencies. Apart from the absorptive capacity of the departments and agencies in terms of obligation, the rate at which these cash ceilings are utilized[5] for payment of goods delivered, services rendered, and works accomplished, is a closer indicator of NG disbursements. Among the major spending departments, DND recorded the highest utilization rate for the first semester at 99 percent, followed by DSWD at 98 percent, then by DepEd (97%), DAR (96%), DOH (95%), and so on. The NCA utilization rate of DPWH remains relatively low at 74 percent, which even declined from the comparable 2012 rate of 79 percent.

Disbursements

The obligation performance, the actual implementation of programs and projects, and the NCA utilization rates of departments and agencies, translated to disbursements in the amount of P890.8 billion for the first semester, a P95.4 billion or 12.0 percent expansion from the comparable 2012 level of P795.3 billion. This performance reflects the sustained momentum in spending this year particularly evident in the 9.1 percent and 14.9 percent growth in disbursements for the first and second quarters, respectively. It is even more relevant given that it is buoyed by the upswing in maintenance and infrastructure spending, which recorded double-digit growth rates of 26.2 percent and 39.7 percent, respectively.

Meanwhile, cumulative spending remained within the P945.7 billion program for the period by 5.8 percent, or equivalent to P54.9 billion, with lower-than-programmed disbursements for both cash and non-cash items such as interest payments. However, this is a substantial improvement from last year's pace which recorded below-programmed spending by P89.9 billion or 10.2 percent as of June 2012.

Table 8. January to June 2013 Disbursement Performance (in billion pesos)

Particulars	2012 Actual	2013				2012 vs. 2013 Increase/(Decrease)		As % of Full-Year Program
		Program	Actual	Deviation Amount	Deviation Percent	Amount	Percent	
CURRENT OPERATING EXP.	**659.5**	**761.8**	**732.6**	**(29.2)**	**(3.8)**	**73.1**	**11.1**	**46.1**
Personnel Services	255.3	293.1	282.9	(10.2)	(3.5)	27.6	10.8	45.3
MOOE	114.9	149.3	145.0	(4.3)	(2.9)	30.1	26.2	45.6
Subsidy	12.8	23.2	13.2	(10.0)	(43.0)	0.4	3.5	29.3
Allotment to LGUs	109.3	120.9	120.9	-	-	11.6	10.6	50.0
Interest Payments	150.0	164.3	157.1	(7.1)	(4.4)	7.1	4.7	47.3
Tax Expenditures	17.3	11.0	13.5	2.5	22.6	(3.8)	(22.0)	50.0
CAPITAL OUTLAYS	**124.1**	**177.9**	**161.6**	**(16.3)**	**(9.2)**	**37.5**	**30.2**	**42.4**
Infrastructure/Other CO	88.3	139.3	123.4	(15.9)	(11.4)	35.1	39.7	40.7
Equity	0.9	0.8	0.3	(0.5)	(60.8)	(0.6)	(63.0)	25.3
Capital Transfers to LGUs	35.0	37.8	37.9	0.1	0.3	2.9	8.4	49.7
NET LENDING	**11.6**	**6.0**	**(3.4)**	**(9.4)**	**(157.5)**	**(15.1)**	**(129.6)**	**(23.7)**
GRAND TOTAL	**795.3**	**945.7**	**890.8**	**(54.9)**	**(5.8)**	**95.4**	**12.0**	**44.9**

[5] NCA utilization rate is computed as the ratio of negotiated plus outstanding checks based on bank reports, and the NCAs credited to banks.

Program vs. Actual

Disbursements as of June 2013 represent about 45 percent of the total program for the year. Compared to programmed spending in the first half, only tax subsidies had a significantly higher outturn than program among all the expense items, and this is largely due to the releases of P8.1 billion to cover basic VAT liabilities of the Power Sector Assets and Liabilities Management (PSALM) Corporation to the BIR for FYs 2010 and 2011 arising from collections/revenues from IPP administrators (IPPA), IPPA generation payments, interest income from asset sale receivables, fees from privatization and other income. However, this has been offset by the following expenditure categories that have stayed within program:

- Personnel Services (PS) was lower-than-program by P10.2 billion or 3.5 percent primarily due to the unreleased appropriations for lump-sum compensation items and other personnel benefits, release of which are subject to submission of documentary requirements.

- Minimal spending-below-program was incurred under Maintenance and Other Operating Expenditures (MOOE) with the underutilization of NCAs issued for departments such as DENR (80%) and DOT (66%), as well as the non-realization of cash requirements programmed under the Calamity Fund in the first half.

- Despite the considerable proportion of the CO budget released to implementing agencies in the first half of the year, the government missed its disbursement targets for CO as of June by P15.9 billion or 11.4 percent, mostly attributed to the lower-than-programmed disbursements[6] of DA, DPWH, DOH and DOTC. In the case of DOTC, the Statement of Allotment, Obligations and Balances (SAOB)[7] reflected that out of the P44.8 billion of available allotment in the first semester to fund various transport infrastructure projects and acquisition of equipment, the DOTC was only able to obligate P7.2 billion or 16.1 percent as of June 2013, as their projects are still under various stages of procurement. On the other hand, the variance or savings from bidding of almost P8 billion as reported by some DPWH Regional Offices and Project Management Offices (PMOs)[8] have also contributed to the overall lower-than-programmed spending.

  However, having disbursed 40.7 percent of the full-year program for infrastructure and other CO, is a notable improvement from the comparable ratios of 33.5 percent and 35.2 percent in 2011 and 2012, respectively. This generally carries the impact of starting the procurement process relatively early this year, and efforts done by the Account Management Teams (AMTs) to facilitate budget execution.

- Savings in IP registered at P7.1 billion or 4.4 percent mostly from lower-than-programmed debt servicing requirements for domestic borrowings, due to the combined effects of lower volume, particularly for treasury bills and fixed rate

[6] Based on AMT Report on AMT-Guided Departments as of 30 June 2013, comparing actual disbursements based on negotiated checks and working fund against the Monthly Cash Programs (MCPs) of departments/agencies consistent with the DBCC-approved Quarterly Fiscal Program
[7] Based on AMT Report on Financial Performance of AMT-Guided Departments as of 30 June 2013
[8] Presentation on the DPWH Financial Status Update by Dir. Aristeo Reyes of the DPWH Comptrollership and Financial Management Service (CFMS)

treasury bonds, and lower interest rates. The average 364-day T-bill rate as of June at 0.7 percent was lower than the 2.0 percent program assumption.

- Transfers to GOCCs remained lower than program by P12.1 billion or 52.2 percent with the reprogramming of releases of subsidies for the National Electrification Administration (NEA) in the amount of P5.4 billion and National Food Authority (NFA) in the amount of P4.0 billion, pending submission of documentary requirements, particularly those stipulated under the pertinent Special Provision (SP) in the GAA in the case of NEA, and the Corporate Operating Budget (COB) in the case of NFA.

- Net lending was also below-program by P9.4 billion on account of the huge P12.3 billion repayment to the NG by the Power Sector Assets and Liabilities Management (PSALM) Corporation under the Debt Management Program for the availments made in 2012. This level of spending was partially abated by the advances made for the accelerated amortization of the China-EXIM Loan of the North Luzon Railways Corporation, and for the payment of short-term obligations of the National Food Authority.

<u>Year-on-Year</u>

Crucial to the achievement of the country's economic growth targets, disbursements consistently surpassed last year's outturn by P95.4 billion or 12.0 percent. Expansion occurred in almost all expense items, except for subsidies and equity contributions to GOCCs, and tax subsidies mostly for GOCCs too, declining by P4.0 billion in total. Net lending also dropped by P15.1 billion or 129.6 percent largely due to the combined impact of PSALM's availment of advances last year, and the P12.3 billion repayment by PSALM to the national government in January this year. Significant expenditures that outpaced last year's disbursement performance are as follows:

- PS increased by P27.6 billion or 10.8 percent to P282.9 billion mainly on account of the last tranche of the salary increase for government employees under the SSL 3, higher retirement and terminal leave claims, provision of allowances, per diem and honoraria for government personnel involved in the conduct of the national elections in May, and the impact of newly-created teaching, police and firefighter positions. The rate of increase in PS is expected to wind down in the coming months netting out the salary adjustments from SSL 3 from July onwards.

- MOOE likewise grew by 26.2 percent to P145.0 billion, on account of election-related expenditures by COMELEC and the expanded allocation for the 4Ps of the DSWD. The DSWD has released this year the grants for the November-December 2012 payout period, as well as frontloaded the release of the current year cash grants prior to the election ban in March. Other social protection programs of the DSWD for which fast absorption of funds was recorded are the Supplemental Feeding Program (88.8% of the P3.0 billion authorized allotment was obligated in the first semester), and the Self-Employment Assistance – Kaunlaran Program (52.8% of the P1.8 billion allotment was obligated as of June).

- As a catalyst for a sustainable path of economic growth, capital outlays rose considerably by 39.7 percent to P123.4 billion. This performance gave further boost to the year-on-year improvement in total spending, with releases for DPWH current and prior years' accounts payable in the amount of P71.8 billion[9], for the San Roque Multi-Purpose Project payable to NPC/PSALM, and for the larger infrastructure program in ARMM, among others.

- While freeing up more fiscal space year-on-year with its share in disbursements falling from 18.9 percent in 2012 to 17.6 percent this year, IP nevertheless increased by P7.1 billion or 4.8 percent from the 2012 level to service government's domestic borrowings, particularly on fixed rate treasury/benchmark bonds and retail treasury bonds issued in the second half of 2012 and in the first quarter of 2013.

Financial Status and Physical Accomplishments of Selected Major Programs, By Department, As of 30 June 2013

Department of Education

- For 2013, a total budgetary support of P275.5 billion was allotted to the Department of Education. This is to support the implementation of the K-12 Program and elimination of gaps in education resources such as classrooms, teachers and textbooks. The K-12 Program, which covers kindergarten and 12 years of basic education, is intended to provide sufficient time for mastery of concepts and skills, develop lifelong learners, and prepares graduates for tertiary education, middle-level skills development, employment, and entrepreneurship.

- *Financial Performance.* As of 30 June 2013, DepEd has only obligated P112.6 billion or 40.9 percent of the total allotment releases. Of the total obligation, 91.8 percent was accounted for the provision of personnel and maintenance expenses of public schools. This is followed by the 2.7 percent obligation rate for the Basic Education Facilities, which includes the construction, repair and rehabilitation of classrooms, construction of sanitation facilities and provision of school furniture.

  The said absorptive capacity of DepEd was tempered by the on-going completion of the previous year's target and procurement issues on the construction, repair and rehabilitation of classrooms and sanitation facilities.

- *Physical Accomplishment of Major Programs/Projects.* Based on DepEd's report, a total of 3,896 classrooms had been constructed and 2,023 classrooms had been repaired/rehabilitated as of June 30, 2013. All these undertakings had been funded out of the 2012 Basic Education Facilities Fund.

  With regard to the school furniture component, 2.5 million or 87.4 percent of the target seats for 2010-2012, had already been procured and delivered. The procurement of the current year target of 721,919 seats is still ongoing.

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[9] Based on the Consolidated Report of Disbursements, submitted monthly by DPWH to DBM from January to June 2013.

Of the 61,510 approved teaching items, a total of 56,085 teaching positions or 91 percent has been filled up as of 12 July 2013 while some 3,472 non-teaching items have yet to be created.

On the provision of textbooks and teacher's manuals, DepEd has already printed 20.9 million learning materials and likewise delivered another 14.9 million for a total of 35.8 million out of the target 53.2 million learning materials.

With regard to the Government Assistance to Students and Teachers in Private Education (GASTPE), a total of 807,783 secondary level grantees have been initially identified under the education service contracting scheme, as of 5 August 2013.

For the provision of school operations, 74.5 percent of the 41,460 target public schools were already provided with funding for personnel services and maintenance of operating expenses.

Under the universalization of Kindergarten Program, there are 1,865,807 kindergarten learners enrolled as of 7 June 2013.

In terms of addressing the classroom shortage under the Regular School Building Program, DPWH is coordinating with DepEd for the provision of the validated list of sites for school building construction.

Department of Health

- *Financial Performance.* The Department of Health reported an obligation of P18.6 billion or 40.6 percent of its available allotment of P45.9 billion as of 30 June 2013. Its absorptive capacity was affected by the delays in the procurement process, attributed to late preparation and submission of required documents. The DOH also reported long turn-around time for testing of medicines by the Food and Drugs Administration (FDA) and extended delivery timeline and constraints on storage space for vaccines, as some of the factors that affected the pace of their spending. Health Facilities Enhancement Program (HFEP) marked an obligation rate of 17 percent or P882 million out of the P5.2 billion total allotment received by the DOH. Part of HFEP's allocation under the DPWH had remained unobligated by the end of June 2013.

- *Physical Performance.* Per monitoring of programs for the attainment of health-related MDGs, DOH's implementation of the Doctors to the Barrios Program has surpassed its target for the first and second quarter of 2013 by posting an accomplishment rate of 111 percent, representing a total of 1,634 local government units assisted, where 144 doctors and an average of 25,900 registered nurses and 3,840 midwives were deployed.

Department of Social Welfare and Development

- With the continued efforts to empower the poor, vulnerable and disadvantaged, the DSWD has been allotted a total amount of P61.4 billion. The said amount is intended to support the various social protection programs of the government through the provision of cash transfers, livelihood assistance and feeding program to target beneficiaries.

- *Financial Performance.* For the first semester, the total obligation incurred by DSWD amounts to P23.7 billion or 38.73 percent of the released allotments. Bulk of the obligations is mainly attributed to the following key programs: 1) Pantawid Pamilyang Pilipino Program (4Ps) - 66.3 percent; 2) Supplemental Feeding Program (SFP) - 12.6 percent; and 3) Self-Employment Assistance-Kaunlaran (SEA-K) - 4.7 percent.

- *Physical Accomplishment of Major Programs/Projects.* As of 30 June 2013, DSWD has exceeded this year's target of 3.8 million CCT beneficiaries under the 4Ps, by 4 percent or an additional 157,748 CCT beneficiaries. The grants provided to the said beneficiaries are intended for the health, nutrition and education needs of the beneficiary families, particularly the children, the provision of which is subject to specific conditionalities such as their school attendance and health checkups in health centers.

  For the Supplemental Feeding Program, 98 percent or 1.7 million Day Care children of the Second Cycle of the Program SY 2012-2013, were served with hot and nutritious meals.

  With regard to the Social Pension for Indigent Senior Citizens aged 77 and above, 78 percent or 186,737 pensioners had already benefitted from the program as of 31 March 2013. The said beneficiaries are entitled to receive monthly stipend of P500, in compliance with the Republic Act 9994 or the Expanded Senior Citizens Act of 2010.

  Under the livelihood intervention program through the SEA-K, 41,466 Pantawid Pamilya and 8,499 Non-Pantawid Pamilya beneficiaries have been provided with P10,000 loan, which serves as a capital seed fund of every household beneficiary. Moreover, through partnership with Micro-Finance Institutions, other NGAs and LGUs, a total of 28,081 Pantawid Pamilya Beneficiaries were provided with capital assistance.

  In terms of the Kapit-Bisig Laban sa Kahirapan-Comprehensive Integrated Delivery of Social Services (KALAHI-CIDSS), the completed community-sub-projects for the last two quarters were able to empower 134,616 or 34 percent of target household beneficiaries through the active and direct participation of the households.

Department of Public Works and Highways

- The current management philosophy of the DPWH is "Doing the right projects at the right cost and right quality and accomplished right on time with the right people". Majority of the department's projects are for the development of roads, bridges and flood control structures, inclusive of construction and maintenance, among others.

- *Financial Performance.* Of the P203.2 billion available allotment[10] for DPWH, 60.5 percent was obligated as of 30 June 2013 or an improvement from previous year's absorptive capacity of 58.9 percent.

- *Physical Performance.* For the current year appropriation, some 2,785 roads, highways and bridges projects are programmed to be implemented. As of 30 June 2013, 927 projects were completed while 1,490 projects are currently being implemented, which includes asset preservation, network development, road upgrading, among others. As part of DPWH adaptation to climate change, some 1,098 flood control and drainage projects are programmed as part of the current year budget. Out of this programmed projects, about 129 projects have been completed while 330 projects are on-going.

Department of Transportation and Communications

- Bulk of the DOTC budget is for the construction, repair, and rehabilitation of transport hubs, such as airports and ports.

- *Financial Performance.* Of the P44.8 billion available allotment[11] for DOTC as of the first semester, only 16.1 percent of the allotments was obligated as of June 30, 2013.

- *Physical Performance.* Considering that the period under review is as of June 30, 2013, among the projects that were partially obligated from current year budget releases are the MRT 3 Operation and Maintenance (P396 million), and the Subsidy for Mass Transport (P1.4 billion). As to capital projects' implementation, there was a low absorptive capacity due to slow-moving projects because of procurement bottlenecks, while some projects are in various bidding stages. Included in the projects under bidding are various airports such as the Mactan Cebu Airport Expansion, Kalibo Airport, and the Bicol International Airport Development Project, and the construction and upgrading of municipal ports to support tourism development.

Department of Energy

- The DOE is the premier department mandated by law to "prepare, integrate, coordinate, supervise and control all plans, programs, projects and activities of the Government relative to energy exploration, development, utilization, distribution and conservation".

- *Financial Performance.* Of the allotment releases for the department in the amount of P1.3 billion (including continuing allotment), P529 million or 41.0 percent was obligated.

- Out of the total appropriations for the department, P3.1 billion or 62.9 percent was for the Market Transformation Through the Introduction of Energy Efficient Electric Tricycle (ETrike), supported by a loan from the Asian Development Bank (ADB). There was a decision to change the scope of the project from ETrike to Electric Vehicles and the total budgetary requirements for the project. Thus, the revised project went through NEDA-Investment

[10] Available allotment includes releases from the current budget and from continuing appropriations, as well as unobligated allotment as of 31 December 2012.
[11] *Ibid.*

Coordination Committee (ICC) for evaluation and recommendation to the NEDA Board. The approval of the NEDA Board was released on 24 June 2013. Hence, no allotment releases was made for the Electric Vehicles project as of June 30, 2013.

Department of Agrarian Reform

- *Financial Performance.* Based on the statement of allotment, obligation and balances (SAOB) as of June 30 2013 posted in the DBM website, out of the P17.7 billion allotment received, the department incurred obligations amounting to P7.1 billion, or 40% obligation rate.

  Meanwhile, the combined allotment for the Key Programs and Projects aggregated to P11.6 billion, of which, P2.5 billion (22%) had been obligated. For Land Acquisition and Distribution (LAD), a component of Land Tenure Improvement (LTI) which is co-implemented with DENR and Landbank of the Philippines, received a P2.4 billion allotment from DAR. Of this amount, P834 million (35%) has been obligated. Agrarian Justice Delivery (AJD) has an allotment of P445 million and mid-year obligations of P146 Million (34%). Program Beneficiaries Development (PBD), a program co-implemented with DENR and National Irrigation Authority, incurred P177 Million (5%) in obligations from its P3.3 billion allotment from DAR, while P6 million (3%) out of P210 million allotment for PAMANA was obligated.

- *Physical Performance.* Some P1.6 billion unobligated allotment still remained in LAD because no acquisition and distribution of new lands was recorded during the first semester. The acquisition and distribution of 70,000 hectares (ha) of new lands is projected to be completed in the 4th quarter of the year. Similarly, new lands are in the pipeline for 2014 distribution which are still in various stages of acquisition process until the 4th quarter for which no distribution has been made. Out of 160,000 has. full-year target, 61,884 has. representing pipelined landholding had been covered for distribution. Of the 61.884 has., only about 57,727 has. were considered CARPable land that had been distributed with emancipation patents or certificates of land ownership to 43,222 agrarian reform beneficiaries (ARBs).

  There is an unobligated allotment of P299 million for AJD as of the end of first semester. This is due to the low number of cases processed or resolved and low ARB representation in courts as reflected in their physical accomplishment reports. About 21,360 agrarian disputes and conflicts, which are slightly higher than the midyear target, have been settled or disposed through conciliation/mediation through Agrarian Legal Assistance. Through Adjudication of Agrarian Cases, some 6,329 cases out of 11,681 targets have been resolved, while 3,043 alternative dispute resolution (ADR) conferences out of 10,886 targets have been conducted for case mediation. Also, 2,267 resolutions, decisions and orders out of the target of 4,244 have been executed or implemented.

  An allotment of about P3.1 billion for PBD remains unobligated. The report on the monitoring of Agrarian Reform Community Connectivity and Economic Support Services (ARCCESS) is yet to be finalized; hence it is not reflected in the review. Majority of activities for Social Infrastructure and Local Capability Building (SILCAB), including the establishment and confirmation of new agrarian communities, are scheduled to be conducted or completed in the second semester of the current year. So far, the number of agrarian reform beneficiary organizations and crops profiled for SILCAB were 452 and 159, respectively, exceeding the midyear target. Also, the targeted 127 memoranda of understanding with different partners out of 324 targets have been made. About 183,650 ARBs participated in gender-responsive capacity development training. Some 809 marketing contracts have been facilitated with agribusiness firms or buyers, while 185 organizations were developed as micro-finance providers under Sustainable Agribusiness and Rural Enterprise Development (SARED). Loans amounting to P900,805,209 was availed to finance 29,413 projects enterprises in accordance to the provision of gender-responsive and socialized credit and microfinance assistance.

Meanwhile, P6 million or three (3) percent of P210 million allotment for PAMANA was obligated in the first half of the year to provide peace building project to 10 percent of targeted conflict affected barangays.

Department of Agriculture

- *Financial Performance.* From the report presented by Accounts Management Team, the allotment release of DA in the current year aggregated to P66.5 billion, of which P42.9 billion (or 65%) had been obligated as of 30 June 2013.

  The combined allotment for infrastructure projects is P35.3 billion, of which, P26.3 billion (or 75%) had been obligated. The amount of P20.9 billion (or 73%) out of P28.6 billion allotment had been obligated to construct Irrigation Systems, while for Farm-to-Market Project P5.5 billion has been obligated (or 81%) from its P6.7 billion allotment.

  Similarly, the agency's Key Programs which include rice, corn, and fisheries, among others, received a total allotment of P15.6 billion, of which, P9.2 billion (or 59%) had been obligated. For the Rice Program about P5.1 billion was obligated (or 65%) from its P7.8 billion allotment, while for the Corn Program P904 million (or 58%) obligation had been incurred from its allotment of P1.6 billion. Meanwhile, P1.8 billion (or 51%) out of P3.6 billion allotment was obligated for the Fisheries Program. For other programs including obligations from Quick Response Fund, P3.9 billion (or 45%) was obligated from P8.0 billion allotment.

Department of Environment and Natural Resources[12]

- *Financial Performance.* The allotment release of DENR as stated in its SAOB amounts to P27.3 billion, of which P14.1 billion (or 52%) had been obligated, while P2.2 billion of NCA releases, or some 73 percent, had been fully utilized/disbursed as of June 30 2013. For its Key Programs and Projects, the allotment for National Greening Program (NGP) amounts to P5.3 billion, of which, P2.8 billion (or 53%) had been obligated; For Forest Protection Program, P475 million (or 41%) obligation had been incurred from P1.2 billion allotment released. Meanwhile, Unified Mapping Program has an allotment of P1.5 billion and has incurred P995 million (or 64%) in mid-year

[12] No submission of Report on Physical Performance as of June 2013

obligations. On the other hand, the Geosciences Development Service, which is comprised of Geohazard Survey and Assessment and Geologic Mapping, had obligated P208 million (or 48%) from the allotment of P432 million.

Department of Science and Technology

- *Financial Performance.* Based on the mid-year SAOB of DOST, the department has obligated an amount of P6.2 billion (53%) from its allotment of P11.8 billion.

- *Physical Performance.* For Nationwide Operational Assessment of Hazards (NOAH) Program, river survey and profiling had been conducted in two of 18 target sites- namely, Compostella Valley and Jalaur River- for verification and validation of LIDAR and InSAR data. Also, three trainings had been conducted in relation to LIDAR and InSAR. Validation of 25 out of 36 target sites had been conducted using satellite imagery for nationwide landslide mapping project. For Debris flow mapping, 2 out of 36 provinces were simulated using Synthetic Aperture Radar.

  For Small Enterprise Technology Upgrading (SETUP), P260 million (64%) had been obligated from its P409 million allotment. So far, 1,299 firms (78%) out of the target of 1,668 have been provided with S&T assistance for technology fabrication and transfer, resulting to 18,087 jobs (158%) generated out of the target of 11,460. Similarly, 10,953 firms (82%) out of 13,394 target had been rendered with S&T services and training.

c. Financing and Debt

Lower deficits for the first half of the year has allowed the National Government (NG) to scale back its borrowing operations versus program to help reduce government debt levels. The Government's borrowing program was able to achieve a 96%-4% financing mix as it held back its usual global bond issuance in consideration of burgeoning sterilization cost of additional dollar inflows, opting instead to rely heavily on the large liquidity overhang in the domestic market.

Table 9. NG Financing as of June 2013
In million pesos

Particulars	S1 2013			
	Program	Actual	Difference	%
Financing	**139,440**	**87,826**	**(51,614)**	(37.0)
External (Net)	(45,555)	(64,476)	(18,921)	41.5
External (Gross)	23,632	8,842	(14,790)	(62.6)
Less: Amortization	69,187	73,318	4,131	6.0
Domestic (Net)	184,995	152,302	(32,693)	(17.7)
Domestic (Gross)	358,497	238,231	(120,266)	(33.5)
Less: Amortization	173,502	85,929	(87,573)	(50.5)
Financing Mix (% of total)				
External	6	4		
Domestic	94	96		

Source: DBCC, BTr

Amortization of outstanding external debt was broadly in line with program, only exceeding targets slightly at the tail-end of the period due to a notable depreciation of the Peso in June. On the domestic side, the government's sufficient cash position allowed it to reduce contributions to the Bond Sinking Fund (BSF) while utilizing said fund to redeem maturing obligations. This is seen to further ease the Government's borrowing requirement and also manage further swells to NG debt.

As of end-June 2013, total NG outstanding debt stood at P5,451 billion - 6.9 percent or P351 billion higher on a year-on-year basis. The growth in government debt is driven by the expansion of domestic debt reflecting the government's focus on domestic sources of financing and management of foreign exchange risks in its portfolio. Due to lower deficits and financing requirements, growth in NG liabilities remained lower compared to economic growth indicating enhanced debt sustainability. In proportion to GDP, NG debt in June 2013 has fallen to 49.5 percent compared to 50.5 percent a year ago.

Table 10. NG Debt as of June 2013 (in million pesos)

Particulars	As of June			
	2012	2013	Difference	%
Total	5,100,601	5,451,328	350,727	6.9
External	2,050,547	1,949,537	(101,010)	(4.9)
Domestic	3,050,054	3,501,791	451,737	14.8
% of Total				
External	40.2	35.8		
Domestic	59.8	64.2		
% of GDP	50.5	49.5		
External	20.3	17.7		
Domestic	30.2	31.8		
Average Interest (%)				
External	4.9	5.0		
Domestic	6.9	6.1		
Average Maturity (years)	10.5	11		
External	11.3	11.1		
Domestic	10	10.9		
Memo Items				
GDP	10,099,778	11,016,338	916,560	9.1%
Peso/USD	42.777	42.907		

Active liability management has enabled the Government to shift the composition of its outstanding debt stock in line with cost and risk considerations. As of June 2013, the share of domestic debt has increased to 64.2 percent from 59.8 percent a year ago. Average interest on domestic debt has also gone down to 6.09 percent while increasing maturity to 10.9 years as the government took advantage of high domestic liquidity and demand to issue long-tenor instruments at low rates. On the other hand, average maturity for external debt expectedly declined lacking sufficient new issuances over the period to extend maturity. Lastly, the slightly higher average interest on external debt was mainly due to the depreciation of the Japanese Yen, shifting the weight in the portfolio towards higher interest bearing US Dollar debt.

III. Macroeconomic and Fiscal Outlook For the Rest of 2013

a. Macroeconomic Outlook

Given the country's economic performance in the first semester of 2013, the 6.0 to 7.0 percent real GDP growth assumption for full year 2013 is likely to be achieved if not surpassed. To achieve the high-end of full year growth assumption, the country would require a 6.3 percent growth on the average in the second semester of 2013. Considering the possible slower growth in the third quarter of 2013, achieving the low-end of the full year growth assumption is still feasible as the country only needs at least 4.4 percent growth on the average in the second semester in order to meet the 6.0 percent growth for the year.

Over the near-term, the country's economic growth will be fuelled by sectoral developments both in the supply-side and the demand-side. These will be supported by the implementation of appropriate policies and programs by the government particularly to maintain macroeconomic stability and to encourage the private sector to invest and engage in economic activities that would help create massive decent and quality employment as well as reduce poverty.

The AHFF is seen to post a modest growth in the second half of 2013 supported by crops, poultry, livestock and fishery subsectors. Crops production is expected to be supported by corn production in the third quarter and by palay production in the fourth quarter while poultry and livestock are seen to post positive growth rates for both quarters. Outlook for fisheries subsector remains positive due to the dispersion of quality fingerlings by the Bureau of Fisheries and Aquatic Resources (BFAR), expected lower fuel cost, improved fish stocks, high survival rate and faster growth due to regulated stocking rate coupled with good water condition, good management, the lifting of the fishing ban and the additional access given by the Western and Central Pacific Fisheries Commission (WCPFC).

The industry sector will likely accelerate further in the near-term buoyed by manufacturing and construction subsectors. Manufacturing is expected to continue expanding due to strong food manufactures and the seen gradual recovery of semiconductors. Food manufactures, in particular, will benefit from high level of consumer confidence, growing population, low and stable inflation rate and increasing middle income class. Manufacturing businesses will also benefit from improvements in the cost of doing business, some of which are streamlining bureaucratic procedures, ensuring the ample supply of electricity, and strengthening measures against smuggling. Construction will remain firm, boosted by government spending on infrastructure projects as well as the surge of private construction in upscale residential projects and office space.

The services sector is expected to be driven by real estate, renting, and business activities, trade, finance, and tourism subsectors which are supported by sustained upbeat outlook, stable macroeconomy, better employment opportunities, continued inflow of remittances from Overseas Filipinos, and better connections within and among regions.

On the demand-side, investment is expected to continually provide a strong support to growth together with household final consumption expenditure. Household spending will remain robust backed by positive consumer sentiment, continued increase in employment, steady inflows of Overseas Filipino remittances, low inflation and interest rates, and to some extent, conditional cash transfers (CCT). Capital formation is expected to remain strong due to robust public and private construction and investment in durable equipment. Spending on durable equipment will benefit from the ongoing modernization program of telecommunication companies, re-fleeting of major airlines, and the purchase of power generating sets to augment the power supply in the country, particularly in Mindanao. Government consumption will most likely shore up the domestic economy with the expansion of antipoverty programs of the government. With regard to international trade, the exports of goods are expected to gradually recover in the second half of the year in view of the improving economy of the US and the increasing non-electronics shipments. Based on NSO data, the growth of merchandise exports have been positive since June 2013.

Table 11. Outlook for Selected Macroeconomic Indicators

Particulars	Revised 2013 DBCC Assumptions*
Real GDP growth	6.0-7.0
Inflation	3.0-5.0
364-day T-bill rate [a/]	1.0-3.0
Exchange rate *(PhP/USD, period average)*	41.00-43.00
LIBOR (6 months)	0.5-1.5
Dubai crude oil price *(USD/barrel)*	90.00-110.00
Merchandise exports growth [b/]	11.0
Merchandise imports growth [b/]	13.0

* Based on 2014 BESF
a/ Based on primary market rates
b/ Based on the Balance of Payments Manual 6 (BPM6) concept

Inflation forecasts show that price pressures are manageable and would likely to be within target ranges. Projections point to an average inflation that could settle near the low-end of the 4 percent ± 1 percentage point inflation target for 2013. An assessment of recent economic and financial developments on the global and domestic fronts suggests that the risks to the inflation outlook are skewed slightly to the upside. Potential increase in oil prices due to the ongoing Syrian crisis and higher utility rates constitute the upside risks to inflation. Meanwhile, uncertainty over the strength of the global economy and its dampening impact on international commodity prices represent the downside risks to inflation.

Foreign exchange rate could remain broadly stable despite recent volatility. The movement of the Philippine peso will depend largely on the resilience of the domestic economy against the backdrop of a global economic slowdown. The relatively bullish outlook for the domestic economy could invite further capital inflows, which along with the steady stream of remittances, increased tourist receipts, and robust BPO earnings, could drive peso appreciation. These, however, could be moderated by capital outflows due to expectations of a US Federal Reserve exit from its quantitative easing program as well as due to anticipated stronger imports growth as the domestic economy expands.

Oil prices are elevated and could move to within the upper end of the assumption. The upside risks to global oil prices continue to persist due to geopolitical concerns and potential supply disruptions. However, international agencies expect international oil prices to remain manageable within the next two years as oil production is expected to outpace oil demand due largely to the continued expansion in non-OPEC production, particularly in the North America region. Barring major supply disruptions, Dubai crude oil prices are projected to be within the DBCC assumption for 2013.

The trend in the T-bill rates will continue to be influenced by developments in the NG fiscal position, the BSP's policy stance and the availability of ample liquidity. The NG's medium-term fiscal program is indicative of the NG's commitment to fiscal discipline, which in turn, could help the government secure funding at a lower rate. On the monetary side, the stance by the BSP as well as the ample liquidity in the financial system would help preserve an appropriate interest rate environment. Nonetheless, upward pressures on domestic interest rates could arise should there be a change in the risk appetite with the eventual exit from the extraordinary monetary stimulus in advanced economies.

As the global economic recovery stays sluggish, LIBOR rates are expected to stay low in the near term. Foreign interest rates for 2013 could remain low as major central banks are expected to continue to employ accommodative monetary policy settings to encourage economic activity.

Merchandise exports growth in 2013 is seen to be supported by the recovery in electronics and machinery and transport equipment. For next year, however, exports growth is projected to be higher relative to 2013 due to the expected improved demand conditions arising from the economic recovery in advanced economies and the continued growth of emerging market economies. Possible growth in exports could come from electronics but the country is recently moving towards other sources of exports like machinery and transport equipment, fruits and vegetables, mineral products, chemicals, wood manufactures, and processed food and beverages.

Imports of goods are expected to recover in the remaining months of 2013 up to the following year, supported by higher capital goods imports given the continued rehabilitation in the telecommunication and power generation sector, as well as the ongoing infrastructure expenditure program. Likewise, imports of mineral fuels and lubricants, and raw materials and intermediate goods particularly iron and steel, are expected to accelerate, given robust public and private construction activities. Meanwhile, consumer goods imports will be driven by strong demand for durable goods like passenger cars and home appliances.

b. Fiscal Outlook

Keeping with the fiscal consolidation efforts, the government remains committed to achieving the deficit target at 2.0 percent of GDP for 2013. This however should be buoyed by the improved revenue collections and sustained yet prudent spending to attune with the projected growth of the economy.

With the continued effective implementation of tax administrative reforms and the sin tax law, the main collecting bureaus aim to do better in its collection efforts to achieve the 13.5 percent tax effort for 2013.

Total revenues are expected to grow by 13.7 percent from the actual growth of 12.9 percent registered in 2012. Tax revenues are targeted to increase 18.1 percent with BIR expected to have an 18.5 percent increase in tax revenue collection and BOC by 17.3 percent increase in customs collection. Non-tax revenues will reach a total of P136.0 billion, which is 1.1 percent of GDP. Privatization program was set at P2.0 billion.

In terms of disbursements, the government remains committed to achieving the spending target for the year. Although 55 percent or P1.093 trillion is yet to be spent in the second half, the first semester expenditure numbers show encouraging signs in terms of how it advanced compared to the performance over the past two years. The government expects that disbursements in the second semester will catch-up especially since departments/agencies become wary of the one-year validity of appropriations. They could either use the funds on time or lose it. Hence, it is all the more important for departments/agencies to carefully plan ahead and ensure that project implementation proceeds as planned, so that payments can also be made as scheduled. Moreover, intensive capacity building will be undertaken by the government to strengthen the cash programming skills of our finance and budget officers, for them to be able to make sound projections on their cash requirements. The AMTs which were set up in 2012 to monitor the disbursement performance of big and problematic departments will play a very crucial role in this endeavor. Moreover, we also see the need for the DBM-AMT members to immerse into specific agency operations to better understand the process and to guide the departments in terms of cash programming and accomplishment of accountability reports.

Furthermore, we have also seen a rise in outstanding checks (O/Cs) this year, reaching about P48 billion as of June this year, compared to only P24.5 billion as of June 2012. These are checks that have already been issued by the departments/agencies, but are not yet presented to the banks by the creditors for encashment, hence are not considered disbursements yet. Some P6.2 billion worth of O/Cs were issued by DPWH (in addition to P24.7 billion in lapsed NCAs as of June), P3.8 billion by DND, P3.6 billion by DepEd, P2.9 billion by DILG, P2.8 billion by DENR, and the list goes on. To address the ballooning O/Cs, the government will adopt the Advice to Debit Account (ADA) system which will facilitate disbursements through direct crediting of payments to the creditors' bank accounts, and will enable the government to veer away from using MDS checks, which take relatively longer to translate into actual disbursements.

However, in line with the government's commitment to increase infrastructure spending to 5.0 percent of GDP by 2016 from 2.5 percent of GDP this year, the government revised the classification of disbursement items in accordance with the directive of the DBCC to refine the infrastructure levels reported by including subsidies to government corporations and transfers to local government units for implementation of infrastructure projects. This will reflect a better measure of the portion of the budget that goes to infrastructure especially since government spending has shown to be a significant growth driver contributing to the rise in government final consumption expenditure and public construction, and to the overall GDP growth of 7.6 percent in the first semester.

Table 12. FY 2013 Fiscal Outlook (with reclassified disbursement items)
In billion pesos

Particulars	2012 Actual	2013 Outlook	Growth (%)
REVENUES	**1,534.9**	**1,745.9**	**13.7**
% of GDP	*14.5*	*14.7*	
Tax Revenues	1,361.1	1,607.9	18.1
o.w. BIR	*1,057.9*	*1,253.7*	*18.5*
BOC	*289.9*	*340.0*	*17.3*
Non-Tax Revenues	165.5	136.0	(17.8)
o.w. BTr Income	*84.1*	*57.7*	*(31.3)*
Privatization	8.3	2.0	(76.0)
DISBURSEMENTS	**1,777.8**	**1,983.9**	**11.6**
% of GDP	*16.8*	*16.7*	
Current Operating Expenditures	1,393.0	1,558.5	11.9
o.w. Interest Payments	*312.8*	*332.2*	*6.2*
Capital Outlays	357.3	410.9	15.0
o.w. Infrastructure Outlays	*237.3*	*299.4*	*26.1*
Other Capital Outlays	*66.0*	*78.6*	*19.1*
Net Lending	27.4	14.5	(47.1)
SURPLUS/(DEFICIT)	**(242.8)**	**(238.0)**	**(2.0)**
% of GDP	*(2.3)*	*(2.0)*	

c. Financing and Debt

Moving forward, the government will continue its bias for domestic sources to fund its remaining financing requirements for the rest of 2013. In addition to regular auctions of treasury bills and bonds, the government plans to issue Retail Treasury Bonds in the domestic space to take advantage of excess liquidity and further develop retail investors participation. On the external financing side, the NG will continue to take advantage of available loans from development partners due to their concessional nature.

For the second half of the year, risks to the financing program may arise from market volatility driven primarily by external factors. In particular, the repricing of US treasury benchmarks could swing investor appetite as US assets become more attractive again, leading to lower demand for emerging market securities and thereby causing higher borrowing costs. In response, the Government is looking to lock in lower rates while continuing its proactive liability management initiatives to manage risks. The financing program also effectively minimizes the foreign exchange risk on the country’s debt portfolio.