Republic of the Philippines
Development Budget Coordination Committee
Malacañang, Manila

Mid-Year Report on the FY 2017 National Budget

September 28, 2017

I. Introduction

The Philippines remained one of the best performing economies in the region for the first half of 2017, posting a 6.4 percent real GDP growth. This is slower compared with the performance in the same period a year ago but past considering election cycles, the slowdown was milder than in previous ones.

The economic growth was driven primarily by household consumption, and capital formation as the massive Build, Build, Build infrastructure program of the Administration started to gain steam. Export growth was unexpectedly strong amidst the greater demand coming from major trading partners such as China, Japan, the European Union and other emerging Asian markets such as Hong Kong, South Korea, and Thailand. On the supply-side, the growth of the industry and services sectors remained robust while the agriculture sector had rebounded from previous slump.

The domestic economy however did not go unscathed from both domestic and external pressures. Consumer prices increased in the first half of 2017 due to tightness in food supply, increase in oil prices and in transportation costs. On the other hand, the Peso depreciated further coming from its 2016 level mainly due to the series of US Fed rate hikes, and the stronger demand for foreign exchange needed for the importation of capital goods and intermediate inputs as the economy sustained its growth momentum.

The Duterte Administration is committed to sustain economic growth and most importantly, improve the welfare of the people. As such, the FY 2017 Budget of P3.35 trillion carries the theme "Budget for Real Change" and is focused on funding programs and projects under the 10-point socio-economic agenda of the

Administration. In terms of fiscal performance, both revenue collections and disbursements remained buoyant, registering 6.8 percent and 9.0 percent year-on-year growths, respectively, indicative of the continuing aggressive stance in spending and revenue collection.

The succeeding sections of this Report provide a detailed discussion of the country's macroeconomic and fiscal performance during the first half of 2017, and include the following:

- FY 2017 budgetary principles and targets;
- First semester performance in the context of the macroeconomic, revenue, expenditure, financing, and debt targets as presented to Congress; and
- Updated projections for the economy and emerging fiscal position for the year.

II. FY 2017 National Government Budget

The FY 2017 National Government Budget is the Duterte Administration's first budget which implements his core commitment of real change. It is a budget that gives flesh and bones to the promise to promote for social justice and inclusive growth through aggressive infrastructure spending and continued improvements in social services. It is a "budget for the people and by the people".

This year's budget was designed based on the following principles: i) just and disciplined fiscal policy; ii) focus on social order and equitable progress; iii) the budget policy of what you see is what you get; iv) accountability to the people; and, v) local governments as able partners in development.

At P3.35 trillion, the national budget for 2017 is 11.6 percent higher than the budget for 2016. It represents 21.0 percent of GDP and as such is an expansionary budget, being much higher than the average government spending of 16.6 percent of GDP from 2006 to 2015. The budget deficit limit is set at P478.1 billion, or 3 percent of GDP, higher than the past Administration's 2 percent deficit ceiling. These expenditure stance and fiscal deficit ceiling for 2017 reflect the medium term policy and are deemed reasonable and fiscally sound as it will allow the continued decline of public debt even as the spending on infrastructure, rural development, and social services is increased. For 2017, the share of Debt Burden to total expenditures is projected to decline to 10.5 percent from last year's 14 percent while the national government (NG) debt is expected to further goes down from 42.1 percent of GDP in 2016 to 40.6 percent of GDP by the end of 2017.

Budget Priorities

As a tool for equitable progress, the FY 2017 Budget focuses resources on the programs and projects towards the achievement of the 10-point socio-economic development agenda of the Duterte Administration.

In adherence to the people-oriented design of the budget, 40 percent of the P3.35 trillion appropriations is dedicated to the most important resource, the people, through increases in education, health care, social welfare, and other social services. Meanwhile, to sustain economic growth, employment and poverty reduction, 27.6 percent of the budget will go to the economic services to address the country's infrastructure gaps, boost the agriculture and rural sectors, and generate more jobs and livelihood.

Some P858.1 billion, equivalent to 5.4 percent of GDP, was allocated for infrastructure development. The Build, Build, Build policy of the Administration is focused on transport infrastructure development nationwide to connect lagging regions with growth centers and to decongest Metro Manila and other urban/metropolitan areas. The construction and rehabilitation of road networks, railways, and airport and seaport systems was allotted the biggest chunk of infrastructure spending with a combined budget of P353.4 billion.

Almost 22 percent of the budget is for the general public services and defense to promote improvements in government administration and sustain the modernization of the armed forces and the police. While these sectors' shares in the budget remain flat, the focus incorporates the war on illegal drugs, the streamlining of frontline services, and anti-corruption programs.

To reduce poverty, and build human resources able to compete with the rest of the world, this year's budget is investing heavily in human capital development. The budget for education sector amount to P699.95 billion and account for 20.9 percent of the total budget. Of this, P570.4 billion is allocated to the Department of Education (DepEd) to keep up with the critical input requirements of implementing the K to 12 Basic Education Reform Program. The Commission on Higher Education is allocated P13.4 billion to expand the reach of its student financial assistance programs, implement free tuition in state universities as well as to sustain the K to12 Transition Program. This is on top of the P58.8 billion total subsidies for the state universities and colleges. Technical and vocational education is also supported through the Technical Education and Skills Development Authority (TESDA) with a total budget of P6.9 billion to support, among others, the Training-for-Work Scholarship Program.

Universal health care and social protection remain among the top priorities of this Administration. The 2017 Budget allocates P151.5 billion for the health sector, P94.0 billion of which is appropriated to the Department of Health (DOH) for the deployment of more doctors and health workers to rural areas, the enhancement of health facilities such as local hospitals and drug abuse treatment and rehabilitation centers, and the support for the implementation of the Reproductive Health Law. On top of this, P50.2 billion was provided to the Philippine Health Insurance Corporation (PhilHealth) to sustain the health insurance coverage of about 15.4 million indigent families and 5.4 million senior citizens. The Department of Social Welfare and Development (DSWD) was provided P129.9 billion for the Conditional Cash Transfer Program to include the renewed support for high school students, indigenous peoples and the homeless and for the continued implementation of the Sustainable Livelihood Program to provide microenterprise development and employment facilitation for the poorest of the poor.

The government targets economic development that extends to the lagging regions and rural areas. Hence, the funding for agriculture and agrarian reform sector, to which a large percentage of the poor population belongs, was increased. In 2017, the Department of Agriculture (DA) was appropriated P45.3 billion to boost production, marketing and research and development of agricultural crops (i.e. palay, corn, high value commercial crops, etc.) fisheries, and livestock and poultry. The DA budget also supports the construction of farm-to-market roads and small-scale irrigation systems, and the provision of agricultural equipment and facilities for value adding and reduction of post-harvest losses. Another priority output of the DA is the updating of the National Soil Sample Database which was updated almost forty years ago to guide the farmers on the suitable crops, fertilizer, and plant and soil reagents for each specific soil type. The National Irrigation Administration (NIA) was separately appropriated the amount of P36.4 billion for construction, rehabilitation, and restoration of irrigation systems nationwide. Included in the NIA budget was the funding reimbursement for the irrigation service fees previously paid by the farmers but was lifted by the President because of the free irrigation policy. The Tourism Department has a P4.0 billion allocation to create more jobs and livelihood opportunities from the country’s tourist destinations on top of the P20.1 billion allocation for tourism infrastructure development (i.e. airports, seaports, and access roads) that will make it easier for domestic and foreign tourists to reach the major tourism destinations around the country.

In view of the intensifying natural calamities due to climate change, the government is investing a greater amount on disaster risk management to strengthen the resilience of vulnerable communities. The Department of Environment and Natural Resources (DENR) was allocated with P29.4 billion of which, P7.06 billion is for the implementation of the National Greening Program, which intends to reforest an additional 1.5 million hectares of forestland. To prepare, capacitate, and rehabilitate communities in the occurrence of calamities, the amount of P15.76 billion is provided for the National Disaster Risk Reduction and Management Fund (NDRRMF) which includes P4.0 billion in the Quick Response Funds to allow the immediate access to relief funds by key departments in the event of calamity or other emergency situations.

III. First Semester Macroeconomic and Fiscal Performance

Macroeconomic Environment

Real GDP growth for the first half of 2017 registered at 6.4 percent, only slightly below the lower end of the full-year growth target of 6.5-7.5 percent for 2017. As expected, growth in the first semester of 2017 was slower relative to the performance in the same period a year ago (7 percent), as the impact of election spending waned. However, the slowdown is milder than in previous election cycles. Fortunately, the Philippines remained as one of the best performing economies among its regional peers, second only to China (6.9 percent), but ahead of India (5.9 percent), Vietnam (5.7 percent), Malaysia (5.7 percent), Indonesia (5.0 percent), and Thailand (3.5 percent).

Table 1. Mid-year 2017 Economic Performance vis-à-vis Assumptions

Particulars	FY 2017 BESF Initial Projections	Actual (January-June)	
		2016	2017
Nominal GDP (in PhP million)			
low-end	15,937,446	6,891,168	7,521,839
high-end	16,375,877		
Real GDP Growth Rate (%)	6.5-7.5	7.0	6.4

Source: NEDA

On the expenditure-side, domestic demand (6.6 percent) remained firm, boosted primarily by capital formation (9.7 percent) and household consumption (5.8 percent). The strong growth of capital formation was supported by increases in spending for durable equipment (13.2 percent) and construction (8.8 percent). In particular, among the durable equipment that registered robust expansions were air transport (196.9 percent), water transport (67.7 percent), agricultural machineries (56.9 percent), textile machineries (30.2 percent) and telecommunications and sound recording/reproducing equipment (15.5 percent). Household consumption, on the other hand, took its vitality from the positive consumer sentiment, improved labor market conditions and the additional income from government mid-year bonuses. The depreciation of the peso likewise provided additional boost to the purchasing power of remittance-receiving households. Moderate inflation and interest rates during this period also contributed in buoying household demand.

External demand was stronger than expected, providing the additional boost to the expansion of exports of goods and services (20.0 percent growth), accounted for mainly by merchandise exports (22.9 percent), amidst strong demand in major trading partners such as China, Japan, EU, as well as the emerging Asian economies, such as Hong Kong, South Korea, and Thailand. Import growth (18.6 percent) remained strong with merchandise import expansion (21.4 percent) providing the support.

Table 2. Growth of GDP, by Component, January-June, 2017

Particulars	Growth Rate (%)		Contribution to Growth (in ppt)	
	S1 2016	S1 2017	S1 2016	S1 2017
GROSS DOMESTIC PRODUCT	**7.0**	**6.4**	**7.0**	**6.4**
By Expenditure				
1. Household Final Consumption Exp.	7.3	5.8	5.0	4.0
2. Government Final Consumption Exp.	12.7	4.0	1.4	0.5
3. Capital Formation	30.9	9.7	6.9	2.7
A. Fixed Capital	29.3	12.1	6.6	3.3
1. Construction	16.7	8.8	1.5	0.9
Public	34.9	9.0	0.8	0.3
Private	10.7	8.6	0.7	0.6
2. Durable Equipment	41.3	13.2	4.8	2.0
4. Exports	10.4	20.0	5.2	10.2
5. Less : Imports	23.2	18.6	11.7	10.9
By Origin				
1. Agri., Hunting, Forestry and Fishing	(3.2)	5.6	(0.3)	0.5
2. Industry	8.4	6.8	2.8	2.3
3. Services	7.9	6.4	4.5	3.7

Source: PSA

On the supply-side, services (6.4 percent) and industry (6.8 percent) continued to grow strongly, supported by the rebound of agriculture and fishery (5.6 percent). For both industry and services, expansions were all noted across its subsectors except for the contraction of mining and quarrying (-1.2 percent). Meanwhile, agriculture and fishery was mainly upheld by the very vibrant performance of crops (9.5 percent) and the poultry industry (4.8 percent).

Consumer prices rose faster during the first semester (H1) of 2017, as headline inflation averaged 3.1 percent from 1.3 percent in the same period last year. The higher H1 2017 inflation outturn was attributed mainly to tightness in domestic food supply, upward adjustments in petroleum prices and electricity rates, and increases in taxi and jeepney fares. Nonetheless, the average headline inflation remains within the government target range of 3.0 percent ± 1.0 percentage points (ppt) for the year.

In the financial market, strong market demand for short-term government securities arising from cautious market sentiment due to the heightened uncertainty on the pace of US fiscal and monetary policy adjustments, as well as political moves in the Euro area, contributed to slightly higher domestic interest rates in H1 2017 relative to the previous year. The 364-day Treasury bill rates in the primary market averaged a higher 2.8 percent in H1 2017 from 1.8 percent in H1 2016, but within the 2.5 – 4.0 percent Development Budget Coordination Committee (DBCC) assumption for the year.

Meanwhile, the US Fed rate hikes in March and June 2017 as well as market concerns on the recent widening of the country's current account deficit, contributed to the peso depreciation during this review period. In January to June 2017, the peso-dollar exchange rate settled at an average of ₱49.92/US$1, a more depreciated level than the DBCC assumption range of ₱45.00 – 48.00/US$1 presented in the 2017 Budget of Expenditures and Sources of Financing (BESF). The continued growth of the economy led to stronger demand for foreign exchange for the importation of capital goods and intermediate inputs, foreign investments by residents, and prepayments of foreign debt. Nevertheless, the peso continued to draw strength from the country's firm macroeconomic fundamentals, robust external position, and investment grade status. The average 180-day London Interbank Offered Rate (LIBOR) settled at 1.4 percent in the first six months of 2017, well within the 1.0 – 2.0 percent assumption range for the year.

In the global oil market, crude oil prices increased in H1 2017, driven mainly by the strong compliance among members of the Organization of the Petroleum Exporting Countries (OPEC) with agreed targets for reducing output despite rising commercial crude stockpiles, as well as higher active rig counts and capital expenditure from oil companies in the US. Dubai crude oil price averaged US$51.44 per barrel in January to June 2017 from US$36.80 per barrel in the same period in 2016, within the DBCC assumption of US$40.00 – US$55.00 per barrel.

In the external trade sector, exports of goods grew by 18.0 percent in H1 2017 to US$24.0 billion from the comparable 2016 level of US$20.3 billion, above the full-year DBCC growth projection of 6.0 percent. Stronger-than-expected export performance indicated the improved external demand from major trading partners, notably the US, Asia (e.g., Hong Kong, China, Singapore, and South Korea), and the European Union (EU). This is in line with the continued strengthening of economic activity in a number of advanced and developing economies. Exports growth was driven primarily by the 12.1 percent increase in outbound shipments of manufactured goods, contributing 10.3 ppts to the 18.0 percent year-on-year (y-o-y) expansion of total goods exports. Higher exports of manufactures were largely driven by non-consigned electronics, machinery and transport equipment, processed food and beverages, and garments. Other exports such as mineral products and coconut products likewise recorded significant annual growth rates of 87.7 percent and 78.2 percent, respectively. The expansion in exports of mineral products stemmed mainly from increased shipments of copper metal, while that of coconut products was due to higher shipments of coconut oil following the increment in both export volume and price.

Meanwhile, imports of goods in the first half of 2017 amounted to US$43.4 billion, posting a 15.2 percent increase relative to US$37.7 billion in the same period last year, likewise surpassing the 10.0 percent growth DBCC projection for the full year. This developed on account of increased inward shipments across all major commodity groups. The year-on-year expansion was boosted primarily by increased imports of raw materials and intermediate goods (by 16.8 percent), and materials and accessories used for manufacture of non-consigned electronics. Imports of mineral fuels and lubricants grew by 30.7 percent, buoyed by the increase in global oil prices.

Table 3. Selected Macroeconomic Indicators

Particulars	FY 2017 DBCC	Actual (January-June)	
	Original [a/]	2016	2017
Real GDP growth (%)	6.5 - 7.5	7.0	6.4
Inflation (%)	2.0 - 4.0	1.3	3.1
364-day T-bill rate (%) [b/]	2.5 - 4.0	1.8	2.8
Foreign exchange rate (PhP/US$1)	45.00 - 48.00	46.90	49.92
180-day LIBOR (%)	1.0 - 2.0	0.9	1.4
Dubai crude oil price (US$/barrel)	40.00 - 55.00	36.80	51.44
Goods exports growth (%) [c/]	6.0	-2.3	18.0
Goods imports growth (%) [c/]	10.0	16.9	15.2

a/ Based on FY 2017 BESF

b/ Based on primary market rates

c/ Based on Balance of Payments and International Position Manual, 6th edition (BPM6)

Note: Actual data are averages for the period January to June 2017

Sources: DBM, NEDA, PSA, BTr, and BSP

FY 2017 Full Year Fiscal Program

For 2017, the DBCC adopted a higher deficit target of 3.0 percent of GDP compared to the previous Administration's 2.0 percent of GDP in order to increase public infrastructure and social services expenditures. This expansionary fiscal policy is expected to further sustain the economy's growth momentum from the 6.9 percent real GDP growth in 2016 to the 6.5 to 7.5 percent growth target for the current year.

However, the fiscal program finally approved by the DBCC for 2017 was adjusted downwards from the projections presented in the FY 2017 BESF in August, 2016, as shown Table 4 below:

Table 4. 2017 Fiscal Aggregates, Projection vs Program (In billions)

Particulars	2017		Variance	
	Projection [a]	Program [b]	Amt	%
Revenues	2,481.5	2,426.9	(54.7)	*(2.2)*
Tax Revenues	2,313.0	2,258.4	(54.7)	*(2.4)*
Non-Tax	166.5	166.5	-	-
Privatization	2.0	2.0	-	-
Disbursements	2,959.7	2,909.0	(50.7)	*(1.7)*
Current Operating Exp.	2,208.5	2,195.6	(13.0)	*(0.6)*
Capital Outlays	734.4	696.6	(37.7)	*(5.1)*
Net Lending	16.8	16.8	-	-
Surplus/(Deficit)	(478.1)	(482.1)	(4.0)	*0.8*
Notes:				
Total Obligation program	*3,350.0*	*3,350.0*	-	-
NG Infrastructure (Obligations)	*689.6*	*672.4*	*(17.2)*	*(2.5)*
NG Infrastructure (Cash)	*552.0*	*484.9*	*(67.1)*	*(12.2)*
as % of Obligations	*80.1*	*72.1*		

[a] *FY 2017 BESF level*

[b] *FY 2018 BESF level*

Sources: DBM and DOF

Program revenues were reduced by P54.7 billion or 2.2 percent from the original projection of P2,481.5 considering the lower-than-expected actual tax collection outturn in 2016 (P1,980.4 billion vs. P2,044.0 billion).

The government also took account of the obligation program for the year (at P3,350.0 billion[1]) emerging from Congress. Assumptions for disbursements were likewise revisited and the monthly disbursement program (MDP) submission of agencies was calibrated for the historical spending performance of agencies and pace of program/project implementation. Accordingly, disbursements were adjusted downwards by P50.7 billion or 1.7 percent, compensating for the decline in revenues and maintaining the target deficit-to-GDP ratio of 3.0 percent.

Spending for current operating expenditures was adjusted downwards by P13.0 billion due to decline in maintenance expenditures and lower allotments to LGUs[2] although these were partly offset by higher personnel services requirements. Similarly, capital outlays were trimmed down by nearly P38.0 billion largely due to the P67.1 billion reduction in NG cash infrastructure requirements by agencies. However, this was tempered by the increased equity contributions to GOCCs, and higher capital transfers to LGUs with the inclusion of the *Local Government Support Fund.* This brings the projected cash requirements for the NG infrastructure to around 72.1 percent of the P672.4 billion NG infrastructure obligations in 2017, compared to the earlier projection of 80.1 percent.[3]

The resulting deficit increased slightly by P4.0 billion or 0.8 percent to cushion further reduction in disbursements. Nonetheless, the deficit still remains at the 3.0 percent of GDP deficit target.

Table 5. Fiscal Aggregates, 2016 Actual vs 2017 Program (In billions)

Particulars	2016 Actual	2017 Program	Increase/(Decrease)	
			Amt	%
Revenues	2,195.9	2,426.9	231.0	*10.5*
Disbursements	2,549.3	2,909.0	359.6	*14.1*
Surplus/(Deficit)	(353.4)	(482.1)	(128.7)	*36.4*

Sources: DBM and DOF

[1] Obligations pertain to the level of commitments or the amount the government is authorize to contract out for the implementation of programs, projects and activities. Disbursements, on the other hand, refer to the actual cash payments for goods delivered and services rendered.
[2] In the 2017 projection, the amount for *Local Government Support Fund* was originally included in the Allotment to LGUs but was then reclassified under the Capital Transfers to LGUs since this is intended mostly as capital development assistance.
[3] NG infrastructure obligations were lower than the original projection of P689.6 billion due to the revisions in the tagging of infrastructure expenditures.

Compared to the actual collections in 2016, revenues are targeted to increase by 10.5 percent to reach P2,426.9 billion this 2017, anchored on a more robust domestic economy and the improved trade outlook. The projection also takes into account the improvement in tax administration efficiency through the reforms and measures being implemented by both the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) such as the *Run After Tax Evaders (RATE)* and Anti-Smuggling campaign, respectively. Total revenues for the year are projected to reach 15.3 percent of the GDP.

Table 6. National Government Revenues, 2016 Actual vs 2017 Program (In billions)

Particulars	Full Year		Increase/(Decrease)		2017 % Distribution
	2016 Actual	2017 Program	Amt	%	
Tax Revenues	1,980.4	2,258.4	278.0	*14.0*	*93.1*
Bureau of Internal Revenue	1,567.2	1,782.8	215.6	*13.8*	*73.5*
Bureau of Customs	396.4	459.6	63.3	*16.0*	*18.9*
Others	16.8	15.9	(0.9)	*(5.6)*	*0.7*
Non-Tax Revenues	214.9	166.5	(48.3)	*(22.5)*	*6.9*
BTr	101.7	58.6	(43.2)	*(42.4)*	*2.4*
Fees and Charges	39.8	44.0	4.2	*10.5*	*1.8*
Others	73.3	64.0	(9.4)	*(12.8)*	*2.6*
Privatization	0.7	2.0	1.3	*204.4*	*0.1*
Total Revenues	**2,195.9**	**2,426.9**	**231.0**	***10.5***	***100.0***

Source: DOF

Tax revenues will reach P2,258.4 billion, comprising 93.1 percent of the total revenue program for the year. This amount is further broken down into P1,782.8 billion BIR collections equivalent to 73.5 percent of the total revenues, P459.6 billion BOC collections (18.9 percent) and P15.9 billion tax collections from other agencies (0.7 percent). Non-Tax revenues meanwhile will amount to P166.5 billion or 6.9 percent of the total revenue program.

Disbursements, on the other hand, are expected to increase by 14.1 percent to reach P2,909.0 billion owing to the higher expenditure allocations for priority areas namely education, health, social protection, and transport and road infrastructures. The details of the disbursement program are based on the calibrated MDPs submitted by the implementing agencies. Disbursements this 2017 are expected to reach 18.3 percent of GDP.

Table 7. National Government Disbursements, 2016 Actual vs 2017 Program (In billions)

Particulars	Full Year		Increase/(Decrease)		2017 % Distribution
	2016 Actual [a]	2017 Program	Amt	%	
Current Operating Expenditures	1,909.3	2,195.6	286.2	*15.0*	*75.5*
Personnel Services	723.2	882.4	159.2	*22.0*	*30.3*
Maintenance Expenditures	419.8	474.5	54.7	*13.0*	*16.3*
Subsidy	103.2	95.5	(7.7)	*(7.5)*	*3.3*
Allotment to LGUs	342.9	392.3	49.3	*14.4*	*13.5*
Interest Payments	304.5	334.9	30.4	*10.0*	*11.5*
Tax Expenditures	15.7	16.0	0.3	*1.7*	*0.6*
Capital Outlays	624.7	696.6	71.9	*11.5*	*23.9*
Infrastructure and Other Capital Outlays	493.0	549.4	56.4	*11.4*	*18.9*
o.w. NG Infrastructure	*448.5*	*484.9*	36.4	*8.1*	*16.7*
Capital Transfers to LGUs	120.0	143.2	23.2	*19.3*	*4.9*
Equity	11.7	4.1	(7.6)	*(64.9)*	*0.1*
Net Lending	15.3	16.8	1.5	*9.6*	*0.6*
Total Disbursements	**2,549.3**	**2,909.0**	**359.6**	***14.1***	***100.0***

[a] *The Local Government Support Fund was reclassified under the Allotment to LGUs and Capital Transfers to LGUs. This was previously treated as part of the NG MOOE.*

Source: DBM

Current Operating Expenditures (COE) will consume P2,195.6 billion or three fourths of the P2,909.0 billion spending program for 2017. Under the COE, personnel services and maintenance expenditure will have significant allocations amounting to P882.4 billion (30.3 percent of the total program) and P474.5 billion (16.3 percent), respectively. On the other hand, Capital Outlays will have a total cash requirement of P696.6 billion (23.9 percent of the total program), consisting largely of the P484.9 billion NG Infrastructure (16.7 percent).

The resulting deficit amounts to P482.1 billion, higher by 36.4 percent year-on-year and is equivalent to 3.0 percent of the projected GDP. This will be financed by P631.3 billion of borrowings, of which some 80 percent (P505.0 billion) is planned to be sourced from the domestic market and the rest (P126.3 billion), from foreign project and program loans and global bonds.

The quarterly distribution of the approved fiscal program is shown in Table 8 below:

Table 8. 2017 Quarterly Fiscal Program (In billions)

Particluars	Quarterly Distribution				Full Year
	Q1	Q2	Q3	Q4	
Revenues	512.7	680.2	599.7	634.2	2,426.9
% Distribution	*21.1*	*28.0*	*24.7*	*26.1*	*100.0*
Disbursements	646.0	690.7	801.1	771.1	2,909.0
% Distribution	*22.2*	*23.7*	*27.5*	*26.5*	*100.0*
Surplus/(Deficit)	(133.3)	(10.5)	(201.4)	(136.9)	(482.1)
% Distribution	*27.6*	*2.2*	*41.8*	*28.4*	*100.0*

Sources: DBM and DOF

Revenue collections are anticipated to peak in the second quarter at 28.0 percent, which coincides with the schedule of filing of income tax returns with the BIR. Receipts for Q3 and Q4 will likely average to 25.0 percent of the full year collections due to more upbeat domestic economy, improved trade and high remittances inflow during these periods.

Disbursements, on the other hand, are backloaded, with 54.0 percent of the full year spending program lodged in the second semester. This distribution is consistent with the seasonality of certain expenditures such as personnel services where a big chunk of the requirements for the creation/filling of positions of DepEd is lodged in Q3 while the timing of release of the year-end bonus and cash gift for government employees is scheduled in Q4. Maintenance and Other Operating Expenditures (MOOE) requirements of the education sector agencies are programmed mostly starting Q3 which is in line with the school or academic calendar. Capital expenditures lean towards Q3 and Q4 mainly on account of the payments for completed infrastructure projects implemented during the summer season and the programming of big-ticket capital projects since their procurement and pre-implementation activities occur at the earlier part of the year.

The distribution of the deficit is skewed towards the second semester where spending requirements are projected to be higher than expected revenue proceeds.

FY 2017 First Semester Fiscal Performance

Revenue Performance

For the period January to June 2017, revenue collections reached P1,176.4 billion, or 98.6 percent of the target. This is P 75.0 billion or 6.8 percent higher than the previous year's collection of P 1,101.0 billion.

Table 9. National Government Revenue Performance, First Semester 2017 (In billions)

Particulars	2016 Actual	2017		Y-o-Y Growth (%)
		Program	Actual	
Tax Revenues	982.9	1,107.8	1,069.0	*8.8*
BIR	783.4	881.7	848.0	*8.2*
BOC	190.6	217.7	210.3	*10.4*
Other Offices	9.0	8.4	10.7	*19.1*
Non-Tax Revenues	117.6	85.2	107.1	*(8.9)*
Fees and Charges	18.4	21.2	19.1	*4.2*
Bureau of the Treasury	63.7	34.2	52.7	*(17.2)*
Other Non-Tax	35.5	29.8	35.3	*(0.7)*
Grants	0.0	-	0.0	*10.7*
Privatization	0.5	-	0.3	*(43.6)*
Total Revenues	**1,101.0**	**1,193.0**	**1,176.4**	***6.8***

Source: DOF

Tax revenues grew by 8.8 percent and met 96.5 percent of the H1 program. The BIR which accounts for 80 percent of total tax revenues, registered a growth of 8.2 percent in collections and was 96.2 percent of the target for H1. The BOC which accounts for 19 percent of tax revenues collected 10.4 percent more than last year, higher than imports growth of 9.6 percent. The BOC collected 96.6 percent of its H1 target. Other offices collected P10.7 billion, 19.1 percent higher than previous year's collection and 127.8 percent of the program.

Non-tax revenue is P10.4 billion lower relative to same period in 2016 but exceeded the projections by almost 26.0 percent. The decline was mainly due to lower BTr income. Total income collected by Bureau of Treasury decreased by 17.2 percent year-on-year due to lower NG share in PAGCOR income and dividend collections, as well as reduced income generated from NG deposits and BSF/SSF investments given reduced assets and cash holdings. Fees and charges grew by 4.2 percent.

Bureau of Internal Revenue

Total BIR collections reached P848.0 billion for the first six months of 2017, exclusive of tax refund amounting to P5.6 billion. The first semester collection increased by 8.2 percent from P783.4 billion collected in the same period in 2016. Higher nominal GDP in the first semester compared with the same period in 2016, contributed to the higher collections. Higher volumes of government securities, loans and deposits coupled by higher interest rates on loans and treasury bills also contributed to the growth in collections. This was partially offset however, by lower interest rates on deposits and higher export to GDP ratio.

On the tax administration side, the nationwide implementation of comprehensive taxpayer profiling and industry benchmarking activities to cover an expanded list of industries; the broadening of the tax base by registering unregistered tax payers as a result of Tax Compliance Verification Drive (TCVD) and third party information; the updating of zonal value schedules; and implementation of other administrative measures, among others contributed to the growth in collection for the period. These measures enhanced the implementation of BIR's priority programs such as the Run After Tax Evaders (RATE) and Oplan Kandado.

The BIR collections fell short of the target due to the combined result of lower than programmed actual nominal GDP, interest rates on treasury bills and deposits and volume of loans and deposits.

Table 10. BIR Collection Performance (In billions)

Particulars	Actual First Semester		Increase/(Decrease)	
	2016	2017	Amt	%
Taxes on Net Income and Profits	469.8	503.9	34.1	*7.3*
Taxes on Property	3.1	4.0	0.9	*29.0*
Taxes on Domestic Goods and Services	313.1	345.7	32.6	*10.4*
Value-Added Tax	163.7	172.2	8.5	*5.2*
Excise Tax	77.6	89.3	11.7	*15.1*
Percentage Taxes	31.4	38.2	6.8	*21.7*
Franchise Taxes	0.3	0.3	(0.0)	*(6.9)*
Documentary Stamp Tax (DST)	37.3	42.4	5.1	*13.7*
Other Taxes	2.8	3.3	0.5	*17.9*
Tax Refund	(2.6)	(5.6)	(3.0)	*115.4*
Total BIR Collections	**783.4**	**848.0**	**64.6**	***8.2***

Sources: DOF and BIR

Income Taxes (IT) accounted for 59.4 percent of the Bureau's total tax collection for the first six months. The implementation of the second tranche of the salary adjustment under Executive order 201, S. 2016 as well as the creation and filling up of positions in the government substantially improved income tax collections. The collection from audit of deficiency income tax covering 2011, 2012, and 2014 inclusive of interest and surcharge; and the final tax collected from payments made to non-resident foreign corporations during this period, also contributed to income taxes.

Excise Tax (ET) collections were boosted by higher revenues on sin products, particularly on alcohol products which continued to improve due to the sustained implementation of RA No. 10351 (Sin Tax Reform). The sales volume of alcohol expanded due to increasing demand and consumption resulting from aggressive marketing and distribution. In addition, the collection from automobiles increased as vehicle sales from January to June 20017 increased as compared to last year in anticipation of the increase in tax rates in 2018 when the Tax Reform for Acceleration and Inclusion (TRAIN) is passed into law.

Value-Added Tax grew by only 5.2 percent, lower than the nominal GDP growth of 9.2 percent. The VAT collection was adversely affected by the hefty increase in the input tax claimed by major companies from domestic purchases and importation of goods.

The year-on-year growth in **percentage tax** collections can be attributed to the expansion in volume of loans (net of RRPs) from last year and increased volume of traded shares in the Philippine Stock market.

The collection performance of other taxes improved by 15.3 percent compared to the 2016 collections mainly due to the increased Documentary Stamp Tax (DST) payments on transactions subject to DST, such as loans and special savings deposits during the first semester.

Bureau of Customs

Table 11. BOC Collection Performance (In billions)

Particulars	Actual First Semester		Increase/(Decrease)	
	2016	2017	Amt	%
Import Duties/Taxes	24.6	27.3	*2.6*	*10.6*
VAT on Imports	142.6	157.2	*14.6*	*10.2*
Spec (Excise)	20.8	24.3	*3.4*	*16.5*
Other Collections	3.0	3.4	*0.5*	*15.4*
Tax Refund	(0.5)	(1.9)	*(1.4)*	*276.0*
Total BOC Collections	**190.6**	**210.3**	***19.7***	*10.4*

Sources: DOF and BOC

The BOC registered P210.3 billion in actual collections for January to June 2017, 10.4 percent higher compared to the same period last year.

Higher imports, the depreciation of the peso, higher crude oil price, lower deferred payments and higher tax expenditure subsidies contributed to the growth in collection compared with the same period in 2016. This was partially offset by higher tax credits, lower volume of crude oil imports, lower average tariff rate and higher ratio of non-dutiable non-oil imports to total imports. Non-traditional revenues such as auction sales of confiscated/abandoned goods, wastages and warehousing supervision fee, penalty and other fees and charges classified under other collections also increased by 15.6 percent or Php0.46 billion year-on-year.

BOC collection fell short of the program due to lower volume of crude oil imports, lower tariff rates, higher tax credits utilized and higher non-dutiable imports ratio brought about by the implementation of various free trade agreements.

Borrowing Performance

National Government Financing

As of June 2017, the NG raised P505.8 billion in gross financing to cover the P154.5 billion budget deficit for the first half of the year and the refinancing requirement of P111.9 billion (including P58.0 billion for redemption as part of global bond exchange). The gross financing is frontloaded given the issuance of USD2.0 billion (P99.6 billion) in Global Bonds and P181.9 billion in Retail Treasury Bonds. The borrowing mix for the first semester reflects a 72:28 split between domestic and foreign borrowing. However, net of bond exchange, the split between domestic and foreign sources of financing improves to 82:18.

The issuance of domestic securities remained the preferred mode of fund raising with proceeds from the auction of treasury bills and bonds contributing P366.6 billion or 72 percent to the borrowing effort. Gross treasury bills floatation amounted to P147.3 billion while redemptions amounted to P117.5 billion, making P29.9 billion available for financing. Meanwhile, the sale of 3-, 5-, 7-, 10- and 20-year treasury bonds accounted for the remaining P154.8 billion domestic funding. Aside from the regular issuances, the NG also raised a total of P181.9 billion in April from the Treasury's 19th issuance of the three-year Retail Treasury Bonds (RTBs) as part of government's continuous initiative of reaching a wider investor base while promoting savings and investment consciousness among Filipinos.

Meanwhile, external borrowings made up around P139.2 billion or 28 percent of the total amount, sourced through availments of concessional loans from development partners and issuance of dollar bonds in the international capital market. Around 13 percent of loan availments came from program loans, the bulk of which was sourced from the International Bank for Reconstruction and Development (IBRD) and the Asian Development Bank (ADB), specifically: (1) USD220 million or P10.9 billion from IBRD's Philippine Social Welfare Development and Reform Project and (2) USD100 million or P5.0 billion from ADB's Additional Financing for Social Protection Support Project.

Table 12. National Government Financing (In millions)

Particulars	S1 2017			Variance		2017 Full Year	
	Program	Actual		Amt	%	Program [a]	Revised Program [b]
NET FINANCING	**377,393**	**393,836**		**16,443**	**4.4%**	**542,009**	**584,780**
External Borrowing (Net)	40,032	28,155		(11,877)	-29.7%	42,777	43,170
External Borrowing (Gross)	147,650	139,209	c/	(8,441)	-5.7%	126,259	182,770
Less: Amortization	107,618	111,054	d/	3,436	3.2%	83,482	139,600
Domestic Borrowing (Net)	337,361	365,681		28,320	8.4%	499,232	541,610
Domestic Borrowing (Gross)	339,000	366,551		27,551	8.1%	505,035	544,969
Less: Net Amortization	1,639	870		(769)	-46.9%	5,803	3,359
Amortization	*116,507*	*115,738*		*(769)*		*232,987*	*230,543*
o/w Serviced by the BSF [e]	*114,868*	*114,868*		-		*227,184*	*227,184*
GROSS FINANCING	**486,650**	**505,760**		**19,110**	**3.9%**	**631,294**	**727,739**
Financing Mix (% of Total)							
External	30%	28%				20%	25%
Domestic	70%	72%				80%	75%

a/ Based on FY 2017 BESF Table D.1

b/ Based on FY 2018 BESF Table D.1

c/ Includes proceeds used to prepay outstanding bonds in bond exchange transactions

d/ Includes prepayments made through bond exchange transactions

e/ actual redemption from Sinking Fund

Source: BTr

In February, the national government embarked on the maiden Global Bond issuance of the Duterte administration with a new 25-year global bond (or ROPs) in the amount of USD2.0 billion. Of the total, USD1.5 billion was used to exchange existing bonds for the new series. The net amount of the transaction will be used for general purposes including budgetary support.

Continuing with the thrust of reducing the country's exposure to foreign currency volatility as well as the long term objective of developing domestic capital markets, the NG will continue to primarily borrow in local currency to meet its funding requirements for the rest of 2017. The revised full-year target indicates a 75:25 mix between domestic and foreign sources of financing. However, netting the bond exchange transaction in February will likely result in attaining financing mix target for 2017 of 80:20.

National Government Debt

As of end-June 2017, total debt of the NG amounted to P6,417 billion (USD127.20 billion), growing by 5.4 percent or P326.8 billion compared to its level at the beginning of the year. Domestic debt accounts for 65 percent of total NG obligations amounting to P4,186 billion while the remaining 36 percent or P2,231 billion are held as external debt.

With continued prudent fiscal and debt management, the debt-to-GDP ratio continued to improve. Although the ratio slightly increased to 42.5 percent from 42.1 percent at the beginning of the year, this can be attributed to the frontloading of NG borrowings including the issuance of RTBs. The national government projects a 40.6 percent debt-to-GDP ratio at the end of the year down from 42.1 percent as of year-end 2016.

Alongside improvements in the relative size of its obligations, the Government was also successful in maintaining the favorable profile of its outstanding debt in line with cost and risk considerations:

- Based on value, 67 percent of the total national government debt is denominated in Philippine currency implying moderate exposure to adverse adjustments in the foreign exchange rate.

- Despite the rising interest rate environment, the weighted average interest rate (WAIR) for total NG Debt has remained low and stable at 4.90 percent from 4.99 percent at the beginning of the year. Over the same period, the WAIR for domestic borrowings has gone down to 5.17 percent from 5.24 percent while that for foreign financing is at 4.40 percent from 4.54 percent. The reduction in borrowing costs results from a strategic issuance approach that takes advantage of favorable interest rates to refinance maturing obligations.

- The cost structure ensures minimal exposure to adverse changes in interest rate. Most of the national government debt is at fixed interest rates, with only 8.65 percent of the total debt portfolio as of end-June 2017 is subject to resetting. This limits interest payment volatility and provides stability to the budget.

Table 13. National Government Debt (In millions)

Particulars	June 2016	June 2017	Difference	Variance
Total NG Debt	**5,947,999**	**6,417,065**	**469,066**	**7.9%**
External	2,119,503	2,230,711	111,208	5.2%
Domestic	3,828,496	4,186,354	357,858	9.3%
% of Total				
External	36%	35%		
Domestic	64%	65%		
% of GDP	43.01%	42.47%	-0.55%	
External	15.33%	14.76%	-0.57%	
Domestic	27.69%	27.70%	0.02%	
Total Interest Payments	**153,712**	**151,577**	**(2,135)**	
External	49,831	49,888	57	
Domestic	103,881	101,689	(2,192)	
% of GDP				
Total Interest Payments	2.23%	2.02%		
External	0.72%	0.66%		
Domestic	1.51%	1.35%		
% of NG Expenditures				
Total Interest Payments	12.59%	11.39%		
External	4.08%	3.75%		
Domestic	8.51%	7.64%		
% of NG Revenues				
Total Interest Payments	13.96%	12.89%		
External	4.53%	4.24%		
Domestic	9.44%	8.64%		
Average Maturity (years) [a/]	**10.23**	**9.96**		
External	12.36	12.43		
Domestic	9.05	8.19		
Weighted Average Interest Rate				
External	4.46	4.40		
Domestic	5.40	5.17		
Interest Rate Mix	**100.00%**	**100.00%**		
Fixed	91.41%	91.26%		
Floating	8.46%	8.57%		
Interest Free	0.13%	0.17%		
Memo Items				
GDP	13,828,277	15,111,391		
GDP Q2	6,891,168	7,521,839		
Peso/USD	47.007	50.449		
Expenditures	1,221,271	1,330,830		
Revenues	1,100,955	1,176,360		

a/ average maturity measured in years on residual basis

Source: BTr

- The average residual maturity remains at a very comfortable level. The average maturity of the debt portfolio is 9.96 years long, residing at the upper bound of the country's medium-term debt target of 7-10 years, with domestic and external debt having remaining maturities of 8.19 and 12.43 years, respectively. Moreover, only 7.38 percent of the total debt portfolio are maturing in less than a year indicating a low refinancing risk. These stem from the country's ability and preference to borrow at medium-to long-term tenors, helping reduce sovereign exposure to liquidity risks.

Given the borrowing program for the rest of the year, debt and risk metrics are expected to maintain their current trajectory. The borrowing strategy builds towards improved sustainability of the National Government's debt portfolio.

Expenditure Performance

Appropriations, Allotments and Obligations

Table 14. Statement of Appropriations, Allotments and Obligations (In billions)

Particulars	Available Appropriations [a]	Allotment Releases [b]	Actual Obligations	Unobligated Balances	Obligation Rate [c]
National Government Agencies	**2,397.7**	**2,130.2**	**936.3**	**1,193.9**	***44.0***
Special Purpose Funds (SPFs)	**942.6**	**605.4**	**360.7**	**(244.8)**	***59.6***
GOCCs	167.2	76.9	76.9	-	*100.0*
ALGUs	592.6	528.5	283.8	244.8	*53.7*
Other SPFs	182.8	-	-	-	-
Automatic Appropriations	**371.3**	**334.9**	**151.6**	**183.3**	***45.3***
Net Lending	16.8	-	-	-	-
Interest Payments	334.9	334.9	151.6	183.3	*45.3*
Other Automatic	19.6	-	-	-	-
Total	**3,711.7**	**3,070.5**	**1,448.5**	**1,132.4**	***47.2***
By Funding Source	**3,711.7**	**3,070.5**	**1,448.5**	**1,621.9**	
Current Year	3,357.0	2,793.4	1,361.2	1,432.2	-
Continuing Appropriations	354.6	277.0	87.3	189.7	-

[a] Includes adjustments per Special Provisions in the GAA, realignments of allotment classes and releases to implementing units from SPFs,

[b] Includes the P246.6 billion unobligated allotment released in 2016.

[c] Percentage of obligations vs allotment releases.

Source: DBM

For 2017, the total available appropriations amount to P3,711.7 billion, which is composed of P3,357.0 billion current year's program[4] and the P354.6 billion continuing appropriations or the 2016 appropriations which remain valid until the end of 2017.

Allotment releases as of the first semester of 2017 totaled to P3,070.5 billion or 82.7 percent of the available appropriations for the year, broken down into P2,793.4 billion current year's appropriations, and P277.0 billion continuing appropriations which is inclusive of the P246.6 billion unobligated allotments released in the previous year. To facilitate the early obligation, and hence, timely implementation of programs and projects by line agencies, some P1,643.9 billion or 53.5 percent of the total releases was comprehensively made in January 3, 2017 – the first working day of the year.

Actual obligations as end-June 2017, meanwhile, reached P1,448.5 billion or 47.2 percent of the total P3,070.5 allotment releases. The total obligation rate for the H1 2017 is almost the same as the 47.1 percent recorded for the same period in 2016. Although some delays and bottlenecks were encountered at the earlier months of the year such as failed biddings, late submission or ongoing processing of documentary requirements, line agencies such as the DOLE (livelihood programs), CHED (scholarship programs) and DOST (purchase of ICT equipment) had accelerated bidding processes and implementation activities so that obligation rates will gradually improve starting Q3 this year.

Disbursement Performance

Year-on-Year Performance

Spending for the first semester reached P1,330.8 billion and grew by 9.0 percent year-on-year despite the base effect of the one-off and election expenditures for the same period in 2016. The expansion is mainly credited to the growth of subsidy contributions to GOCCs (59.1 percent), combined allotment and capital transfers to LGUs (13.8 percent), personal services expenditures (13.1 percent) and infrastructure and other capital outlays (8.8 percent). The total infrastructure spending of the NG amounted to P218.6 billion, up by 5.0 percent compared to a year ago and, equivalent to 2.9 percent of H1 GDP.

The subsidy contributions to government corporations amounting to P58.2 billion, were substantial during the first six months of the year, composed of the P20.0

[4] Includes P7.0 billion releases from Unprogrammed Appropriations.

billion budgetary support to the National Irrigation Administration (NIA) for irrigation projects; P12.0 billion to the National Housing Authority (NHA) as payment for completed housing programs for informal settler families and calamity victims; P9.3 billion to the Philippine Health Insurance Corporation (PHIC) for the health insurance premiums of indigents and senior citizens enrolled in the *National Health Insurance Program;* and the P5.1 billion to the National Food Authority (NFA) for the rice and corn price and supply stabilization program.

Table 15. National Government Disbursements (In billions)

PARTICULARS	First Semester			Variance		Increase/(Decrease)	
	2016	2017					
	Actual [a]	Program	Actual	Amt	%	Amt	%
Current Operating Expenditures	910.5	1,013.1	1,000.9	(12.2)	*(1.2)*	90.4	*9.9*
Personnel Services	339.0	401.7	383.3	(18.3)	*(4.6)*	44.4	*13.1*
Maintenance and Other Operating Exp.	204.5	215.9	208.2	(7.6)	*(3.5)*	3.7	*1.8*
Subsidy	36.6	26.7	58.2	31.6	*118.3*	21.6	*59.1*
Allotment to LGUs	171.3	196.4	194.8	(1.6)	*(0.8)*	23.5	*13.7*
Interest Payments	153.7	163.5	151.6	(11.9)	*(7.3)*	(2.1)	*(1.4)*
Tax Expenditure	5.3	9.0	4.7	(4.3)	*(47.5)*	(0.6)	*(11.4)*
Capital Outlays	306.7	311.1	331.2	20.1	*6.5*	24.5	***8.0***
Infrastructure/Other Capital Outlays	229.0	236.6	249.1	12.5	*5.3*	20.1	*8.8*
Equity	8.4	2.3	3.2	0.9	*39.9*	(5.2)	*(61.7)*
Capital Transfers to LGUs	69.3	72.2	78.9	6.7	*9.3*	9.6	*13.9*
Net Lending	4.1	12.5	(1.3)	(13.9)	*(110.6)*	(5.4)	*(132.5)*
Total Disbursements	**1,221.3**	**1,336.8**	**1,330.8**	**(5.9)**	***(0.4)***	**109.6**	***9.0***

[a] The *Local Government Support Fund* was reclassified under the Allotment to LGUs and Capital Transfers to LGUs. This was previously treated as part of the NG MOOE.

Source: DBM

The allotment and capital transfers to LGUs combined for some P273.7 billion disbursements for the first semester, increasing by 13.8 percent year-on-year as a result of higher LGU shares from internal revenue collections and the P28.9 billion releases from the Local Government Support Fund (LGSF) to finance the capital outlay projects under the *Assistance to Disadvantage Municipalities* and *Conditional Matching Grant* programs.

Personnel services expenditures reached P383.3 billion, up by P44.4 billion or 13.1 percent year-on-year) due to the increase in the pay of civilian government employees and allowances of the uniformed and military personnel pursuant to EO 201, s.2016. This also covers the pension requirements, retirement and terminal leave benefits of employees mostly in the DILG, DND, as well as the requirements for the creation and filling of positions in the DepEd, SUCs, DPWH and other agencies.

Infrastructure and other capital expenditures remained strong at P249.1 billion (P20.1 billion or 8.8 percent year-on-year) mainly as a result of the implementation of road infrastructure projects of the DPWH, acquisition of defense assets and equipment under the AFP Modernization Program of the DND, as well as some capital outlay projects (e.g., transport projects, construction or renovation of school buildings, purchase of machinery and equipment).

The growth of H1 disbursements, however, was tempered by the contraction in the following items:

- Net lending (-P1.3 billion; -132.5 percent year-on-year) and tax subsidies (P4.7 billion; -11.4 percent year-on-year) due to repayments and lower availments from GOCCs, respectively;
- Equity (P3.2 billion; -61.7 percent year-on-year) in the absence of the P5.0 billion capital infusion to the Development Bank of the Philippines for the same period in the previous year;
- Interest payments (P151.6 billion; -1.4 percent year-on-year) due to bond exchange transactions and obligations which had matured.

Program vs Actual Performance

It should be noted that the disbursements for H1 2017 represent 99.6 percent of the P1,336.8 billion program for the semester, effectively reducing the underspending level to just P5.9 billion (0.4 percent) from P30.7 billion (4.7 percent) in the first quarter this year, and compared to the 164.4 billion (11.9 percent) in the first semester of 2016. The gap was narrowed on account of the following factors:

- *Faster fund absorption by GOCCs.* The program for subsidy contributions for the period was only assumed at P26.7 billion mainly because of the historically low utilization of GOCCs. However, billings from the contractors of the irrigation projects of the NIA have been more regular while the payment claims from the contractors of the housing programs of the NHA were all processed in June. In previous years, billings from these contractors, as well as their submission of supporting documents have been late.

- *Frontloading of releases for the LGSF.* Some P9.8 billion under the LGSF for the implementation of the *Assistance to Disadvantage Municipalities* and *Conditional Matching Grant* programs was already requested by the qualified LGUs in the second quarter although the same was programmed in the latter half of the year. The funds were released to them after complying with the requirements and conditions of the said programs.

- *Acceleration of infrastructure projects*. Implementation of road infrastructure projects of the DPWH has been fast-tracked in May this year to recover from the delays encountered in the earlier months. Furthermore, the submission of progress billings from their contractors has been more regular and frequent due to completed works as a result of the accelerated project implementation. Hence, some P218.6 billion (or 45.1 percent) of the P484.9 billion NG infrastructure disbursement estimate for the year was delivered during H1.

However, underspending was still recorded due to the following reasons:

- Savings in interest payments (P11.9 billion) from bond-exchange transactions and debt maturities; tax expenditures (P4.3 billion) and net lending (13.9 billion) due to lower availments by GOCCs;

- Program balances in the Miscellaneous Personnel Benefits Fund (MPBF) (e.g. Performance-Based Bonus) and Pension and Gratuity Fund (PGF) (e.g., retirement and terminal leave benefits) which are yet to be requested by line agencies.

- Delays and some bottlenecks encountered in the implementation and procurement activities of line agencies.

Deficit Level

The deficit stood at P154.5 billion as of end-June 2017, up by P34.2 billion or 28.4 percent year-on-year, and exceeded the program by P10.7 billion or 7.4 percent due to higher spending vis-à-vis revenue outturns for the period.

Table 16. National Government Fiscal Position (In billions)

Particulars	First Semester			Variance		Increase/(Decrease)	
	2016	2017		Amt	%	Amt	%
		Program	Actual				
Revenues	1,101.0	1,192.9	1,176.4	(16.6)	*(1.4)*	75.4	*6.8*
Disbursements	1,221.3	1,336.8	1,330.8	(5.9)	*(0.4)*	109.6	*9.0*
Surplus/(Deficit)	(120.3)	(143.8)	(154.5)	(10.7)	*7.4*	(34.2)	*28.4*

Sources: DBM and DOF

IV. Macroeconomic and Fiscal Outlook for the Rest of 2017

Macroeconomic Outlook

Given the economy's performance during the first half of 2017, the lower end of the full year GDP growth target (6.5 percent-7.5 percent) is well within the reach of government; the economy only needs to grow by 6.5 percent in the second half to accomplish this. This is also in line with market expectations.

Household consumption spending will be supported by high consumer confidence and modest inflation. Oil prices are expected to remain moderate as global oil stocks are close to record highs, contributing to subdued energy prices. Government consumption and public construction will further support demand as national government disbursements are expected to improve further in the second half of 2017. On the other hand, the slowdown in private investments in construction and durable equipment bear watching closely. On the external trade side, exports of goods and services are seen to remain strong due to the recovery of global trade, accompanied by the growth of inbound tourists and strong BPO revenues.

While the economy's performance points to the attainment of targets, domestic and external risks remain a concern. On the domestic front, downside risks to growth include the increased intensity and frequency of natural hazards, including seasonal typhoons. However, the latest report of PAGASA indicate that El Nino Southern Oscillation (ENSO)-neutral conditions will continue to persist in the tropical Pacific until the end of the year. In case of the occurrence of natural disasters, programs and projects can be disrupted, such as in the implementation of agriculture projects. Meanwhile, in spite of measures to accelerate infrastructure spending (e.g., procurement reforms, larger staffing, and capacity building), delays could occur due to unforeseen circumstance such as weather disturbances. Delays in and the watering down of legislative measures intended to correct leakages and augment revenues could also be an area of concern. Moreover, the failure to implement effectively the key policy programs and projects stated in the Philippine Development Plan 2017 -2022 and the Regional Development Plans (RDPs) could compromise the growth targets of the country. Rising political uncertainties may also affect the economy.

On the external side, the slower than expected growth in the US and UK could drag world growth. US growth projections are lower, primarily reflecting the assumption that fiscal policy will be less expansionary going forward than previously anticipated. The growth forecast in the US has been revised down from 2.3 percent to 2.1 percent in 2017 and from 2.5 percent to 2.1 percent in 2018. Moreover, a faster-than-expected monetary policy normalization in the US could tighten global financial conditions and trigger reversals in capital flows to emerging economies and lead to U.S. dollar appreciation. Likewise, the growing tendency towards inward looking policies and an extended period of policy uncertainty (e.g. post-Brexit negotiations) could increase market volatility, disrupt global supply chains, lower global productivity, and dampen spending and confidence. Non-economic risks such as rising geopolitical tensions, domestic political discord, pandemics/transboundary diseases, among others, can likewise weigh on economic activity by harming confidence and market sentiment.

The DBCC continuously monitors and assesses the macroeconomic environment in line with the review of the macroeconomic assumptions needed in the formulation of the 2018 national budget. The foregoing assessment considers the outlook for the rest of 2017.

Table 17. Macroeconomic Assumptions, FY 2018 BESF Outlook

Particulars	FY 2017 DBCC Outlook	
	Original [a/]	Revised [b/]
Nominal GDP (in PhP million)		
low-end	15,937,446	15,876,921
high-end	16,375,877	16,021,728
Real GDP growth rate (%)	6.5 - 7.5	6.5-7.5
Inflation (%)	2.0 - 4.0	2.0 - 4.0
364-day T-bill rate (%) [c/]	2.5 - 4.0	2.5 - 4.0
Foreign exchange rate (PhP/US$)	45.00 - 48.00	48.00 - 50.00
180-day LIBOR (%)	1.0 - 2.0	1.0 - 2.0
Dubai crude oil price (US$/barrel)	40.00 - 55.00	40.00 - 55.00
Goods exports growth (%) [d/]	6.0	5.0
Goods imports growth (%) [d/]	10.0	10.0

a/ Based on FY 2017 BESF

b/ Based on FY 2018 BESF

c/ Based on primary market rates

d/ Based on Balance of Payments Manual, 6th edition (BPM6) concept

Sources: DBM, NEDA, PSA, BTr, and BSP

Latest BSP forecasts indicate that inflation could average near the midpoint of the government inflation target for 2017. The assessment of the price and output conditions suggests that the risks surrounding the inflation outlook continue to be on the upside. The impact of the government's fiscal reform program and the pending petitions for adjustments in electricity rates are the main upside risks to inflation. Meanwhile, the slower global economic growth due to policy uncertainty in advanced economies and geopolitical tensions continues to be the main downside risk to inflation.

The trend in the peso-dollar exchange rate will continue to be influenced by global economic and political developments. Considering the depreciation pressures on the peso-dollar rate in H1 2017, the DBCC raised slightly the exchange rate assumption to ₱48.00 – 50.00/US$1 for 2017. Looking ahead, the peso would remain sensitive to expectations on the timing of subsequent US Fed funds rate hikes and the firmness of the Trump administration's proposed fiscal reforms. Nonetheless, strong macroeconomic fundamentals will continue to provide stability to the peso despite the recent spate of depreciation pressures. The credit rating upgrades that have been earned over the last few years are also expected to sustain market confidence towards the Philippine financial markets.

Oil prices are expected to be broadly in line with DBCC assumptions. The DBCC maintained the Dubai crude oil price assumption at US$40.00 – 55.00 per barrel for 2017 consistent with the current prices in the spot market as well as futures prices and forecasts of multilateral institutions. Meanwhile, uncertainties could emanate from the compliance to the OPEC cut agreement, geopolitical tensions, high inventory levels as well as potential increase in the US shale oil production.

Domestic interest rates could remain within the DBCC assumption in 2017. The DBCC maintained the 364-day T-bill rate assumption at 2.5 – 4.0 percent for 2017. Trends in the domestic T-bill market will continue to be influenced by the current environment of ample liquidity, the fiscal position of the NG as well as future policy actions of the BSP and the US Fed. While higher fiscal deficit targets may, to a certain degree, raise domestic interest rates, liquidity is expected to remain sufficient to meet the funding requirements of the economy and keep interest rate movement within the assumption range.

The foreign interest rate assumption for 2017 was maintained at 1.0 – 2.0 percent. Trends in 180-day LIBOR will continue to be affected by the policy actions taken by major central banks in response to both domestic and global economic conditions. Subsequent interest rate hikes by the US Fed could lead to higher foreign interest rates. Nonetheless, the US Fed ensured the market that future policy rate actions will be gradual.

The growth assumption for goods exports in 2017 has already been revised twice since the initial projection in July 2016. The latest projected goods exports growth in 2017 has been revised upward to 5.0 percent in May 2017 from the 2.0 percent growth assumption in the December 2016 projection exercise, reflecting the firm recovery in both advanced and emerging market economies. This also considers the increasing trade momentum since H2 2016 carrying on to the early months of 2017. Recovery is expected for agro-based products, mineral products, and manufactured exports led by electronics.

Shipments of imported goods are expected to continue to grow robustly by 10.0 percent, unchanged from the previous projections, supported by the expected recovery in commodity prices, sustained growth in imports of raw materials and manufactured goods, capital goods and consumer goods, in line with expected strong domestic demand. However, the growth rate for 2017 is seen to be slightly slower than the 17.7 percent revised growth outturn in 2016 due partly to base effects and assuming a more stable growth rate for major commodity groups based on average growth in the years 2012-2015.

Fiscal Outlook

Total revenue collection for the first half of 2017 was 98.6 percent of the target for the period. Using this as basis, the emerging full year collection for 2017 is estimated at P2,338.8 billion. Tax revenue for the year is placed at P2,174.6 billion and Non-tax revenue, at P162.2 billion. Similarly, with BIR's collection performance for the first semester of 2017 being at 96.2 percent of its target for the period, while that of BOC was at 96.6 percent, BIR collections for the year will likely reach P1,714.7 billion and the BOC collection, P444.0 billion. As shown in Table 18 (*see next page*), revenue collections may be short of targets by P88.1 billion or 3.6 percent of targeted amounts, and reflecting an annual growth from 2016 of 6.5 percent.

Table 18. FY 2017 Full Year Emerging Fiscal Position (In billion pesos)

Particulars	2016	2017		Variance		Increase/(Decrease)		% of GDP
	Actual	Program	Emerging	Amt	%	Amt	%	
Revenues	**2,195.9**	**2,426.9**	**2,338.8**	**(88.1)**	***(3.6)***	**142.8**	***6.5***	***14.7***
Tax Revenues	1,980.4	2,258.4	2,174.6	(83.7)	*(3.7)*	194.2	*9.8*	
Bureau of Internal Revenue	1,567.2	1,782.8	1,714.7	(68.1)	*(3.8)*	147.5	*9.4*	
Bureau of Customs	396.4	459.6	444.0	(15.6)	*(3.4)*	47.6	*12.0*	
Others	16.8	15.9	15.9	-	-	(0.9)	*(5.6)*	
Non-Tax Revenues	214.9	166.5	162.2	(4.4)	*(2.6)*	(52.7)	*(24.5)*	
BTr	101.7	58.6	58.6	-	-	(43.2)	*(42.4)*	
Fees and Charges	39.8	44.0	39.6	(4.4)	*(10.0)*	(0.2)	*(0.5)*	
Others	73.3	64.0	64.0	-	-	(9.4)	*(12.8)*	
Privatization	0.7	2.0	2.0	-	-	1.3	*204.4*	
Disbursements	**2,549.3**	**2,909.0**	**2,819.3**	**(89.6)**	***(3.1)***	**270.0**	***10.6***	***17.8***
Current Operating Expenditures	1,909.3	2,195.6	2,083.3	(112.3)	*(5.1)*	173.9	*9.1*	
Personnel Services	723.2	882.4	786.3	(96.1)	*(10.9)*	63.1	*8.7*	
Maintenance Expenditures	419.8	474.5	470.2	(4.3)	*(0.9)*	50.4	*12.0*	
Subsidy	103.2	95.5	118.4	23.0	*24.1*	15.3	*14.8*	
Allotment to LGUs	342.9	392.3	390.7	(1.6)	*(0.4)*	47.8	*13.9*	
Interest Payments	304.5	334.9	309.2	(25.6)	*(7.7)*	4.8	*1.6*	
Tax Expenditures	15.7	16.0	8.4	(7.6)	*(47.5)*	(7.3)	*(46.6)*	
Capital Outlays	624.7	696.6	733.2	36.5	*5.2*	108.5	*17.4*	
Infra. and Other CO	493.0	549.4	589.2	39.8	*7.2*	96.1	*19.5*	
Capital Transfers to LGUs	120.0	143.2	139.0	(4.2)	*(2.9)*	19.0	*15.8*	
Equity	11.7	4.1	5.0	0.9	*22.6*	(6.7)	*(57.0)*	
Net Lending	15.3	16.8	2.9	(13.9)	*(82.7)*	(12.4)	*(81.0)*	
Surplus/(Deficit)	**(353.4)**	**(482.1)**	**(480.5)**	**1.6**	***(0.3)***	**(127.1)**	***36.0***	***(3.0)***
Nominal GDP								*15,876.9*

Sources: DBM, DOF and NEDA

Expenditures, on the other hand, will likely continue to gather speed in the succeeding months, taking into account the spending trend in 2011 or the year after a presidential election is held.

The growth momentum will also be supported by faster fund absorption of line agencies since they are expected to implement measures in order to catch up from the delays in the earlier months and ensure that spending commitments would be met by the end of the year. This is especially so given the one year validity of appropriations for 2017, in view of the President's veto of the two year validity set by Congress. Full year obligations for 2017 are estimated to reach P3,289.7 billion[5]

[5]Estimated using actual obligations as of June 30, 2017 and applying seasonality in 2011 (2005 data not available). One-time additional or unprogrammed releases and frontloaded expenditures were excluded in the estimation of full year obligations.

or 88.6 percent of the P3,711.7 billion available appropriations[6] for the year. This is better than the full year obligation rate of 86.7 percent a year ago.

The improvement in obligation rate would likely result to higher disbursements which are projected to reach P2,819.3 billion by December 2017[7], up by almost 11.0 percent year-on-year. This assumption is consistent with the observed trend of faster growth of disbursements on the second half of the year after a presidential election. For instance in 2011, disbursements accelerated by 17.1 percent in H2 compared to the 11.4 percent contraction in H1[8]. This happens as implementing agencies start to recover from the "adjustment stage", sorting out some implementation delays and bottlenecks during the transition period. The bulk of NG disbursements is also expected to be made in the second half as the implementation of government programs and projects is accelerated or completed before the year ends and ahead of the closing of books.

The projected full year disbursements would equal to 96.9 percent of the P2,909.0 billion disbursement program for the year, reducing the underspending to P89.6 billion (3.1 percent of the program), down from P96.2 billion (3.6 percent) in 2016, P328.3 billion (12.8 percent) in 2015 and P302.7 billion (13.3 percent) in 2014. The acceleration of infrastructure projects of the DPWH will continue to outweigh the possible underspending from personnel services (due to large program balances in lump-sum PS items), savings in interest payments, and from minimal availments for net lending assistance and tax subsidies.

The faster growth of spending compared to the expansion of revenues (10.6 percent vs 6.5 percent) will result to a higher deficit which is projected to reach P480.5 billion, up by 36.0 percent year-on-year. This puts the emerging year-end deficit at only slightly lower (by P1.6 billion or 0.3 percent) than the P482.1 billion deficit ceiling for the year.

Nevertheless, these emerging numbers are projections based on certain assumptions and analysis of historical trends. Outturns are still dependent on actual conditions such as economic performance, institutional capacities and pace of program and project implementation, among others, which tend to vary from time to time given the external and domestic risks explained previously. The

[6] See discussions on *Appropriations, Allotments and Obligations* on page 23.

[7] Projected using actual disbursements as of June 30, 2017 and applying seasonality the year after presidential elections (average 2005 and 2011) for major expenditures items. One-time additional or unprogrammed and frontloaded expenditures items were excluded in the estimation of full year disbursements.

[8] For 2005, the growth of disbursements in H2 was 8.0 percent compared to 7.5 percent in H1.

government will therefore continue to monitor fiscal developments and continue engaging the collecting and spending agencies with regard to their performance vis-à-vis targets. The collection efficiency of both BIR and BOC will be strictly monitored, including the status or result of their anti-tax evasion and anti-smuggling campaigns, more especially given the shepherding of the TRAIN Bill in Congress. Similarly, line agencies with huge underspending are required at the end of every quarter to provide explanations and implement catch-up measures to accelerate obligations and disbursements and meet program targets given the one-year validity of obligations for FY 2017.

Preparations for the passage and implementation of the Budget Reform Bill are also underway with continuing dialogues with agencies about the shift to cash-based budgeting and the one-year validity of appropriations. Together with the six pilot agencies (DPWH, DepEd, DOH, DSWD, Btr and DBM), specific task teams are also working on budget planning, cash management, IT system, and payment processing among others to streamline processes to make them more efficient and effective. These series of consultations will hopefully compel spending agencies to improve budget execution this year since it would pave the way to the better implementation of the FY 2018 Budget as a transition to the full implementation of one year cash-based appropriations for FY 2019.
