Development Budget Coordination Committee
Malacañang, Manila

MID-YEAR REPORT
ON THE

FY 2019 NATIONAL BUDGET

September 30, 2019

LIST OF ACRONYMS AND ABBREVIATIONS

ARB	Agrarian Reform Beneficiary
AFP	Armed Forces of the Philippines
ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BSP	Bangko Sentral ng Pilipinas
BARMM	Bangsamoro Autonomous Region in Muslim Mindanao
BRIDGE	Bangsamoro Regional Inclusive Development with Growth Equity
BHS	Barangay Health Station
BSF	Bond Sinking Fund
BMB	Budget and Management Bureau
BTMS	Budget and Treasury Management System
BESF	Budget of Expenditures and Sources of Financing
BTB	Budget Technical Bureau
BOT	Build–Operate–Transfer
BOC	Bureau of Customs
BIR	Bureau of Internal Revenue
BTr	Bureau of the Treasury
CO	Capital Outlays
CBS	Cash Budgeting System
CHO	City Health Office
COMELEC	Commission on Elections
CHED	Commission on Higher Education
CTRP	Comprehensive Tax Reform Program
CCT	Conditional Cash Transfer
DAR	Department of Agrarian Reform
DA	Department of Agriculture
DBM	Department of Budget and Management
DepEd	Department of Education
DOF	Department of Finance
DOH	Department of Health
DILG	Department of the Interior and Local Government
DOLE	Department of Labor and Employment
DND	Department of National Defense
DPWH	Department of Public Works and Highways

DOST	Department of Science and Technology
DSWD	Department of Social Welfare and Development
DTI	Department of Trade and Industry
DOTr	Department of Transportation
DBCC	Development Budget Coordination Committee
DIME	Digital Imaging for Monitoring and Evaluation
DST	Documentary Stamp Tax
EDC	Economic Development Cluster
ECB	European Central Bank
ET	Excise Tax
EO	Executive Order
EPA	Early Procurement Activities
EPP	Extended Payment Period
FMR	Farm-to-Market Road
FY	Fiscal Year
FX	Foreign Exchange
GAA	General Appropriations Act
GIDA	Geographically Isolated and Disadvantaged Areas
GPPB	Government Procurement Policy Board
GOCC	Government-Owned and -Controlled Corporation
GDP	Gross Domestic Product
HFEP	Health Facilities Enhancement Program
HELPS	Health, Education, Livelihood, Peace, and Synergy
HEI	Higher Education Institution
IAC	Inter-Agency Committee
IRR	Implementing Rules and Regulations
IT	Income Taxes
IP	Interest Payment
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
JR	Joint Resolution
KALAHI-CIDSS	Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services
LTFRB	Land Transportation Franchising and Regulatory Board
LGSF	Local Government Support Fund
LGU	Local Government Unit
LUC	Local Universities and Colleges

LIBOR	London Interbank Offered Rate
MOOE	Maintenance and Other Operating Expenses
MUP	Military and Uniformed Personnel
MDP	Monthly Disbursement Program
MYCA	Multi-Year Contractual Authority
NDRRMF	National Disaster Risk Reduction and Management Fund
NEDA	National Economic and Development Authority
NEP	National Expenditure Program
NFA	National Food Authority
NG	National Government
NHIP	National Health Insurance Program
NIDS	National ID System
NIA	National Irrigation Administration
NCA	Notice of Cash Allocation
OGP	Open Government Partnership
OPEC	Organization of the Petroleum Exporting Countries
PAMANA	PAyapa at MAsagandang PamayaNAn
PS	Personnel Services
PAGCOR	Philippine Amusement and Gaming Corporation
PDP	Philippine Development Plan
PHIC	Philippine Health Insurance Corporation
PhilHealth	Philippine Health Insurance Corporation
PhilSys	Philippine Identification System
PSA	Philippine Statistics Authority
PCGG	Presidential Commission on Good Government
PESFA	Private Education Student Financial Assistance
PUJ	Public Utility Jeepney
PUV	Public Utility Vehicle
PPP	Public-Private Partnership
QRF	Quick Response Fund
RA	Republic Act
RCEF	Rice Competitiveness Enhancement Fund
RATE	Run After Tax Evaders
RHU	Rural Health Unit
SEIPI	Semiconductor and Electronics Industries in the Philippines
SAGF	Special Account in the General Fund
SPF	Special Purpose Fund
STEP	Special Training for Employment Program

SONA	State of the Nation Address
SUC	State Universities and Colleges
SAAODB	Statement of Appropriations, Allotments, Obligations, Disbursements and Balances
TCVD	Tax Compliance Verification Drive
TRAIN	Tax Reform for Acceleration and Inclusion
TESDA	Technical Education and Skills Development Authority
TWSP	Training for Work Scholarship Program
T-bill	Treasury bill
UCT	Unconditional Cash Transfer
UCPB	United Coconut Planters Bank
UAQTE	Universal Access to Quality Tertiary Education
UHC	Urban Health Center
VAT	Value-Added Tax
WAIR	Weighted Average Interest Rate
WEO	World Economic Outlook
Y-o-Y	Year-on-Year
YTD	Year-to-Date

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I. Introduction

1. **This year marks the Duterte Administration's midterm period, and it is a critical time to assess the accomplishments and progress made during the first semester of the year to determine the best way to move forward amidst the challenges and headwinds the country is facing.** The FY 2019 Mid-Year Report presents a comprehensive analysis of the country's macroeconomic and fiscal performance during the first six months of the year within the context of the government's socio-economic objectives embodied in the Philippine Development Plan 2017-2022 and fiscal targets[1] vis-à-vis the FY 2019 Fiscal Program. It also discusses the macro-fiscal outlook for the rest of the year, and updates on economic strategies and fiscal reforms.

2. **The delayed passage of the FY 2019 Budget was one major challenge that prevented the government from achieving its targets during the first half of the year.** Coupled with the election ban on the construction of public works, this weighed down on government spending performance and caused the sharp decline in capital formation. In particular, some P582.8 billion[2] estimated worth of new programs and projects was not implemented, the bulk of which is intended for road and transport infrastructure projects that will be executed by the Department of Public Works and Highways (DPWH) and the Department of Transportation (DOTr) amounting to P458.8 billion and P28.3 billion, respectively.[3] This contributed to a weaker economic growth, where GDP for the first semester of 2019 expanded by just 5.5 percent, much lower than the 6.3 percent growth rate recorded for the same period in 2018.

3. **Other challenges for the first semester also included the *El Niño* phenomenon which affected agriculture sector output and water supply, as well as policy uncertainties due to growing protectionist sentiments and trade tensions worldwide.** While the Philippine economy continues to be one of the fastest growing economies in the region, the objective continues to make it more resilient to macro-fiscal risks and shocks, as well

[1] Original projections as presented in the FY 2019 Budget of Expenditures and Sources of Financing (BESF).
[2] Estimated based on DBM-Budget and Management Bureau (BMB) submissions of new programs and projects that will be affected by a reenacted budget. Data provided by the DBM-Budget Technical Bureau (BTB) on March 12, 2019.
[3] Based on data from DBM-BMB-A.

as responsive to the needs of all Filipinos, especially for the marginalized and vulnerable sectors.

4. **Despite this setback, the Philippines' sound macroeconomic fundamentals and solid fiscal position ensure that the country can rebound.** Inflation during the period settled within the target range of 2.0 to 4.0 percent through prudent monetary and fiscal policies. Economic growth is projected to recover for the rest of 2019 as the government tries to catch up with its 'Build, Build, Build' Program. This will be supported by the growth in Services Sector, and robust private consumption given the continuing slowdown in inflation and more upbeat consumer sentiment for the quarters ahead. Government revenue performance for the first semester of 2019 was, likewise, notable, increasing by 9.7 percent year-on-year and contributing to a healthy cash position. Meanwhile, National Government (NG) debt settled at a sustainable rate of 43.7 percent of Gross Domestic Product (GDP) as of end-June 2019, albeit slightly higher in relation to the comparable 42.4 percent ratio a year ago.

5. **Key economic and fiscal reforms will help buttress growth and sustain long-term growth momentum.** The Ease of Doing Business Act[4], Rice Liberalization Act[5], and Executive Order (E.O.) No. 65, s.2018 or Foreign Investment Negative List[6] will help drive investments over the medium-term by increasing the country's competitiveness. On the fiscal front, several revenue measures under the Comprehensive Tax Reform Program (CTRP) continue to be lined up to promote a progressive and efficient tax system and provide additional fiscal resources to fund priority expenditures. The Budget Modernization Bill will also be refiled this 18th Congress to institutionalize a more effective public financial management system and address issues such as poor budget and procurement planning, and low fund utilization/absorptive capacity of departments/agencies.

[4] The Ease of Doing Business Act (R.A. No. 11032) was approved on May 28, 2018.
[5] The Rice Liberalization Act (R.A. No. 11203) was approved on February 14, 2019.
[6] E.O. No. 65, s.2018 was approved on October 29, 2018.

II. FY 2019 National Government Budget

Key Budget Principles

6. **The FY 2019 Budget is the first cash-based budget of the Philippine government, a historic move which promotes a more disciplined, accountable, and efficient way of fiscal management.** Submitted on July 23, 2018, the day of the State of the Nation Address (SONA), the FY 2019 Budget underwent rigorous budget deliberations in both Houses of Congress. However, it was not passed in December, resulting in the reenactment of the FY 2018 General Appropriations Act (GAA). The FY 2019 Budget of P3,661.6 billion was finally enacted on April 15, 2019. It is equivalent to 19.0 percent of GDP and 10.1 percent higher when compared to the cash-based equivalent of the FY 2018 GAA of P3,324.0 billion[7]. This cash-based budget will support the 6.0-7.0 percent growth target for the year.

7. **The operationalization of the cash budgeting system (CBS) is further strengthened by Executive Order No. 91, dated September 9, 2019 adopting the cash budgeting system starting FY 2019**. It provides that beginning fiscal year 2019, all authorized appropriations shall be available for obligation and disbursement only until the end of each fiscal year, and that obligations incurred by the NG within each fiscal year shall be implemented during the same fiscal year. Furthermore, payments for obligations incurred shall be made until the end of the extended payment period (EPP) or three months after the end of the validity of appropriations against which it was obligated.

8. **To give way to the smooth transition and effective implementation of the cash-budgeting system, transitory provisions were included as contained in the President's Veto Message on the FY 2019 Budget and E.O. No 91.** The President authorized the implementation and subsequently payment for infrastructure projects (including subsidies to Government-Owned and Controlled Corporations (GOCCs) for infrastructure projects) to extend

[7]Cash-based equivalent pertains to the 2018 Monthly Disbursement Program, net of prior years' obligations.

until December 31, 2020, as stated in the President's Veto Message. Consistent with this, E.O. No. 91 also provides transitory provisions for the new system. The transitional implementation is summarized in the table below:

Table 1. Transitional Implementation of the Cash Budgeting System

PARTICULARS	OBLIGATION	IMPLEMENTATION
Maintenance and Other Operating Expenses	December 31, 2019	June 30, 2020
Infrastructure Capital Outlays		December 31, 2020
Other Capital Outlays		June 30, 2020

9. **Given limited resources, the government continues to explore technologies and platforms to promote transparency, accountability, and active engagement of the public in the budget process.** This is achieved through programs and platforms such as Budget and Treasury Management System (BTMS), Project Digital Imaging for Monitoring and Evaluation (DIME), and Open Government Partnership (OGP). The BTMS collects and organizes financial information in a modernized and fully-automated information system through a common database to facilitate prompt and timely processing of financial transactions, as well as proper monitoring, reporting and auditing. Project DIME uses modern monitoring tools to enable the evaluation of government projects, especially those in hard-to-reach areas, and ensure their timeliness and quality. This is especially important considering the low absorptive capacity of implementing agencies. Meanwhile, OGP is a multilateral initiative that aims to secure concrete commitments from governments to promote transparency, empower citizens, fight corruption and harness new technologies to strengthen governance. A key initiative of the government in relation to citizen participation is the conduct of Regional Dialogues which provides for engagement and avenues for dialogues among stakeholders from different sectors.

10. **The budget continues to support Local Governments by providing additional financial assistance through the Local Government Support Fund (LGSF).** The LGSF is used to fund local poverty alleviation programs and infrastructure projects that would contribute to inclusive growth in the locality. For 2019, a total of P32.7 billion was allotted for the LGSF, of which

P11.7 billion and P2.5 billion were provided as assistance to municipalities and cities, respectively.

Budget Priorities

11. **Under the approved FY 2019 Budget, the Social Services Sector continued to receive the largest share of the budget of 37.6 percent or P1,377.8 billion to improve the quality of life of the Filipino people, especially the disadvantaged and vulnerable, through various public services such as education, social welfare, and health care.** Economic services, on the other hand, received 26.5 percent or P970.3 billion to spur economic growth across the country by supporting industries such as construction, tourism, and manufacturing which will in turn generate quality jobs and provide sustainable livelihood.

12. **The government continues to bridge the gap in investments in infrastructure through its P816.2 billion budget for the 'Build, Build, Build' Program for 2019, which is equivalent to 4.2 percent of GDP.** The bulk of the budget is intended for road networks (P286.8 billion) flood control infrastructures (P104.0 billion), irrigation (P25.5 billion) and transport systems (P33.9 billion), and social infrastructure such as school buildings (P35.9 billion), health (P7.0 billion) and housing facilities (P2.1 billion).

13. **The Education Sector was given a budget of P698.6 billion in 2019. Of this amount, P531.6 billion was allocated to the Department of Education (DepEd) to support the academic development of learners in primary and secondary education.** Meanwhile, the Commission on Higher Education (CHED) was provided with P52.4 billion, of which P42.5 billion will provide free tuition subsidy to eligible students enrolled in State Universities and Colleges (SUCs), Local Universities and Colleges (LUCs), and Private Higher Education Institutions (HEIs) through the Universal Access to Quality Tertiary Education (UAQTE) Program. Meanwhile, P68.3 billion was also set aside for the operation of SUCs nationwide, while P12.7 billion provided for Technical Education and Skills Development Authority (TESDA) will give less privileged Filipinos access to various technical and vocational courses and trainings.

14. **In line with the government's focus on human development, the Health Sector will receive P168.9 billion in 2019.** Of this amount, P32.5 billion will cover for Health Facilities Operations Program, which includes the operation of Department of Health (DOH) hospitals, other health facilities, and drug abuse treatment and rehabilitation centers. A total amount of P15.9 billion will be utilized for the Health Facilities Enhancement Program (HFEP) which includes the completion, repair, rehabilitation, relocation, and equipping of Barangay Health Stations (BHSs), Rural Health Units (RHUs), Urban Health Centers (UHCs), and City Health Offices (CHOs). Moreover, budgetary outlays amounting to P15.4 billion will be spent to procure and distribute medical supplies and equipment especially for provinces with high incidence of diseases, while P12.4 billion[8] was allotted for the deployment of medical professionals to poor localities and areas with insufficient health personnel. To promote equitable healthcare, P67.4 billion was earmarked for the National Health Insurance Program (NHIP) to assist the poor and vulnerable, particularly 15.4 million indigent families, 22,709 families under the Bangsamoro Health Insurance Program, 24,514 million families under the PAyapa at MAsagandang PamayaNAn (PAMANA) Program, and 5.4 million senior citizens.

15. **Congress allocated P141.4 billion to the Department of Social Welfare and Development (DSWD) for the empowerment, protection, and welfare of vulnerable groups in the society.** A sizeable amount of P89.8 billion was earmarked for the Conditional Cash Transfer (CCT) Program which supports the poorest Filipino households through cash grants and subsidies. In view of unintended and temporary adverse effects that may arise from the Tax Reform for Acceleration and Inclusion (TRAIN) Law, social mitigating measures are supported such as the Unconditional Cash Transfer (UCT) Program (P37.6 billion[9]), Pantawid Pasada Program[10], and PUV Modernization Program (P447.0 million). The following are also funded: (a) social pension of indigent senior citizens (P23.2 billion); (b) Supplementary Feeding Program (P3.5 billion); and (c) Sustainable Livelihood Program (P1.7 billion).

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[8] Includes P3.8 billion lodged under the Miscellaneous Personnel Benefits Fund.

[9] Includes requirements for the UCT under the Land Bank of the Philippines.

[10] Amount to be released will be charged against Unprogrammed Appropriations, subject to agency's request and certification of excess revenue collections. For 2019, the DOTr has submitted their request for the release of P2.372 billion program requirement of the Pantawid Pasada Program. For 2019, the DOTr has submitted its request for the release of P2.372 billion program requirement of the Pantawid Pasada Program. However, said request was officially returned to the DOTr for submission of additional pertinent documentary requirements. To date, the DBM has yet to receive the revised request.

16. **To ensure food security, Congress also allotted P137.1 billion for the Agriculture and Agrarian Reform Sector.** To boost food production, especially in regions and provinces with high incidence of poverty among farmers and fisherfolks, the Department of Agriculture (DA) was provided P49.7 billion for the implementation of its various national programs such as the National Rice Program, and National Fisheries Program, among others. In addition, P10.0 billion will be provided annually under the Rice Competitiveness Enhancement Fund (RCEF) from 2019 to 2024[11] pursuant to the Rice Liberalization Act (R.A. No. 11203). This will be used to provide farmers with machineries and equipment, high-yielding seeds, and credit assistance to boost their competitiveness and profitability. Other programs for the sector include free irrigation with a P36.0 billion budget for the National Irrigation Administration (NIA), as well as crop insurance through the Philippine Crop Insurance Corporation (PCIC) which was provided P3.5 billion. The construction of 850.63 kilometers of farm-to-market roads (FMRs) is allotted with P10.2[12] billion. Meanwhile, some P8.2 billion was provided for the Department of Agrarian Reform (DAR), of which P1.9 billion will be used to conduct trainings for Agrarian Reform Beneficiaries (ARBs) that would enhance productivity and profitability.

17. **The government also provided funding support of P16.9 billion and P19.1 billion for the Department of Labor and Employment (DOLE) and the Department of Trade and Industry (DTI), respectively.** These will be used to improve labor productivity and industry competitiveness of the Philippines. Among DOLE's major programs are the Tulong Panghanapbuhay sa Ating Disadvantaged/Displaced Workers (TUPAD) Program (P5.1 billion), Government Internship Program (P1.5 billion), and DOLE Integrated Livelihood Program (P724.0 million). On the other hand, DTI was given P980.0 million[13] to catalyze the competitiveness of micro, small, and medium enterprises (MSMEs), and P145.0[14] million to promote local and foreign investments.

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[11] Sec. 13 of R.A. No. 11203 provides that the RCEF shall consist of an annual appropriation of Ten billion pesos for the next six (6) years following the approval of the Act, subject to a mandatory review at the end of the sixth year to be conducted by the Congressional Oversight Committee on Agricultural and Fisheries Modernization (COCAFM) to determine whether the RCEF and its use as provided for under the Act shall be continued, amended, or terminated.
[12] Locally-funded projects only.
[13] In particular, P582.0 million, P308.0 million, and P90.0 million were provided for Establishment of Negosyo Centers, Shared Service Facilities (SSF) Project, and One Town, One Product (OTOP): Next Generation, respectively.
[14] In particular, P118.0 million, P18.0 million, and P9.0 million were provided for Investment Promotion Program, Industry Development Program, and Comprehensive Automotive Resurgence Strategy (CARS) Program, respectively under the budget of the Board of Investments.

18. **The Administration puts a premium on peace and security, for its role in national growth and sustainable development.** The Department of the Interior and Local Government (DILG) was allotted P230.4 billion, of which P173.5 billion for the Philippine National Police (PNP) is intended to cover programs and projects aimed to reduce criminality and ensure the safety and security in the communities. Part of this is the P5.4 billion for the Capability Enhancement Program to upgrade the force's facilities and equipment. Meanwhile, the Department of National Defense (DND) was provided P186.5 billion to improve the competency of the military, including the P25.0 billion budget for the Revised AFP Modernization Program for the acquisition and upgrading of major defense equipment. On the other hand, the newly established Bangsamoro Autonomous Region in Muslim Mindanao (BARMM) got a budgetary support of P32.3 billion, of which P10.1 billion is allotted for the BARMM Infrastructure Program; P2.7 billion for BARMM-Bangsamoro Regional Inclusive Development with Growth Equity (BRIDGE); and P1.5 billion for BARMM-Health, Education, Livelihood, Peace, and Synergy (HELPS). Another P30.0 billion was also provided under the Unprogrammed Appropriations for the implementation of the Organic Law of BARMM.

19. **As one of the most disaster-prone nations in the world, the Administration recognizes the need for more effective measures to ensure resiliency in the face of natural calamities.** A budgetary outlay of P20.0 billion was earmarked for the National Disaster Risk Reduction and Management Fund (NDRRMF) to cover the provision of aid, relief and rehabilitation services (P4.3 billion); repair and reconstruction (P12.2 billion); and Marawi recovery, rehabilitation and reconstruction (P3.5 billion).[15] Aside from this, some P6.3 billion was allocated for the Quick Response Fund (QRF). The QRF is a pre-disaster fund to ensure prompt response and assistance to areas afflicted by catastrophes and disasters, allocated to select agencies[16] as first responders to areas stricken by crises.

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[15] For further details of the NDRRMF, see FY 2019 GAA at https://www.dbm.gov.ph/wp-content/uploads/GAA/GAA2019/VolumeI/NDRRMF.pdf .

[16] Specifically, the following agencies received QRFs for FY 2019: DepEd (P2.0 billion), DA (P1.0 billion), DPWH (P1.0 billion), DSWD (P1.0 billion), DOH (P0.5 billion), DND (P0.5 billion), and National Electric Administration (P20 million).

III. First Semester Macroeconomic and Fiscal Performance

Macroeconomic Environment

Growth Target

20. **The Philippine economy moderated in the first semester of 2019 as real gross domestic product growth decelerated to 5.5 percent, below the low-end of the government's revised full year 2019 GDP growth target of 6.0 to 7.0 percent.** This was also lower than the 6.3 percent recorded in the same period in the previous year. Nonetheless, the country remains the 3rd fastest growing economy among selected emerging markets in Asia in the first half of the year, after Vietnam (6.8 percent), and China (6.3 percent), but ahead of India (5.4 percent), Indonesia (5.1 percent), Malaysia (4.7 percent), and Thailand (2.6 percent).

Table 2. Mid-Year 2019 Economic Performance vis-à-vis Assumptions

Particulars	2019		Full-year FY 2018 Actual
	FY 2019 BESF[1/] Initial Projections	Actual (Jan-June)	
Nominal GDP (PhP Mn)			
Low-end	19,474,285		
High-end	19,826,691	8,832,439	17,426,202
Real GDP Growth Rate	7.0-8.0	5.5	6.2

1/ Budget of Expenditures and Sources of Financing

Source: PSA and NEDA

21. **On the expenditure side, domestic demand (4.3 percent) weakened in the first half of 2019, due to the contraction in capital formation (-0.1 percent) and slower government spending (7.1 percent) amidst the delay in the passage of the National Budget, compounded by the election ban.** In particular, public construction posted a negative growth rate (-22.1 percent) compared to its double digit growth (21.4 percent) in the same period in 2018. This pulled down overall construction (4.2 percent) performance, countering the robust expansion in private construction (16.7 percent). In addition, contributing to the decline in total investments were the contraction in durable equipment (-2.9 percent), particularly machinery specialized for particular industry (-6.4 percent) and transport equipment (-9.2 percent), as well as drawdown in inventories (-47.9 percent).

22. **Net exports slightly improved in the first six months of 2019, as the slowdown in imports was larger than that of exports.** Net exports grew by 0.2 percent, with imports increasing by 4.2 percent (from 16.1 percent a year ago) and exports expanding by 5.0 percent (from 12.6 percent). Meanwhile, household consumption (5.8 percent) remained generally stable in line with easing inflation and less negative consumer sentiment during the period.[17]

23. **On the supply side, the growth of the services sector edged up by 7.0 percent on the back of the expansion in trade & repair of motor vehicles, motorcycles, personal & household goods (7.9 percent), financial intermediation (9.7 percent), and transport, storage & communication (6.5 percent).** With the weak *El Niño* phenomenon in the first half of the year, the agriculture sector (0.7 percent) maintained its growth as the rebound in fishing (2.2 percent) during the semester more than offset the slowdown in agriculture and forestry (0.4 percent). By contrast, the industry sector growth moderated (4.2 percent) on account of the deceleration in both manufacturing (4.4 percent) and construction (1.9 percent). The subdued performance of the manufacturing sector could be traced to the decline in manufacture of radio, television & communication equipment & apparatus (-0.3 percent), furniture & fixtures (-26.3 percent), and petroleum & other fuel products (-11.3 percent). The contraction posted for the aforementioned subsectors could be partly attributed to the weaker export growth during the reporting period.

[17] http://www.bsp.gov.ph/downloads/Publications/2019/CES_2qtr2019.pdf

Table 3. Decomposition of Real GDP Growth, First Semester 2019

Particulars	Growth Rate (%)		Contribution to Growth (in ppt)	
	S1 2018	S1 2019	S1 2018	S1 2019
Gross Domestic Product	**6.3**	**5.5**	6.3	5.5
By Expenditure				
1. Household Final Consumption	5.8	5.8	4.0	3.9
2. Government Final Consumption	12.6	7.1	1.4	0.9
3. Capital Formation	14.9	-0.1	4.2	0.0
A. Fixed Capital	13.5	0.8	3.8	0.2
1. Construction	11.5	4.2	1.1	0.4
Public	*21.4*	*-22.1*	*0.6*	*-0.7*
Private	*7.3*	*16.7*	*0.5*	*1.1*
2. Durable Equipment	15.2	-2.9	2.5	-0.5
4. Exports	12.6	5.0	7.3	3.1
5. Less: Imports	16.1	4.2	10.5	3.0
By Origin				
1. Agriculture, Hunting, Forestry & Fishing	0.7	0.7	0.1	0.1
2. Industry	7.1	4.2	2.4	1.5
3. Services	6.7	7.0	3.9	4.0

Source: NEDA

Macroeconomic Assumptions

Table 4. Selected Macroeconomic Indicators, 2019

Particulars	2019 DBCC Assumptions		Actual Jan-June 2019
	Original (2019 BESF)	Revised (2020 BESF)	
Inflation (%)	2.0 – 4.0	2.7 – 3.5	3.4
364-day T-bill rate (%) [a/]	3.0 – 4.5	5.5 – 6.5	5.9
180-day LIBOR (%)	2.0 – 3.0	2.5 – 3.5	2.6
Foreign exchange rate (?/US$1)	50.00 – 53.00	51.00 – 53.00	52.21
Dubai crude oil price (US$/barrel)	50.00 – 65.00	60.00 – 75.00	65.44
Goods exports growth (%) [b/ c/]	9.0	2.0	-0.1
Goods imports growth (%) [b/ c/]	10.0	7.0	0.3

a/ Based on primary market rates

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

c/ Actual data for Jan-Jun 2019 were computed using the revised 2018 levels released by the BSP on 13 September 2019. Outlook on exports and imports was approved by the Monetary Board on 13 June 2019 and by the DBCC on 18 July 2019.

Note: Actual data are averages for the period January – June 2019.

Source: DBM, PSA, BTr, and BSP

24. **Headline inflation eased in January – June 2019. During this period, average inflation settled at 3.4 percent, within the government target range of 3.0 percent ± 1.0 percentage point (ppt) for 2019.** Likewise, headline inflation for this period fell within the original and revised 2019 Development Budget Coordination Committee (DBCC) assumptions of 2.0 – 4.0 percent and 2.7 – 3.5 percent, respectively. Lower inflation could be attributed mainly to slower price increases of key food items given sufficient domestic food supply, and lower electricity rates. The Bangko Sentral ng Pilipinas's (BSP) monetary policy actions along with non-monetary measures implemented by the NG (e.g., higher rice importation, approval of rice tarriffication bill, etc.) contributed to steering inflation back within the inflation target band in 2019.

25. **Domestic interest rates followed a slight downward trend in the first six months of 2019, following its increase in the previous year.** Easing inflationary pressures along with the 25-bp policy rate cut by the BSP in May 2019 and US Federal Reserve's shift to a more accommodative policy

stance contributed to the decline in domestic interest rates thus far in 2019. The 364-day Treasury bill (T-bill) rate averaged 5.9 percent in the auctions conducted by the Bureau of the Treasury (BTr) during the first half of the year. This fell within the revised DBCC assumption of 5.5 – 6.5 percent but above the high-end of the 3.0 – 4.5-percent original DBCC assumption for 2019. Likewise, the secondary market rate for 364-day T-bill was lower at 5.0 percent as of end-June 2019 relative to the end-December 2018 rate of 6.8 percent.

26. **The drop in domestic interest rates in the first semester of 2019 was in sync with the decline in global interest rates.** Dovish policy outlook by major central banks amid deteriorating global growth outlook and low inflation particularly in advanced economies, led to lower foreign interest rates during the review period. This is in contrast to the increasing trend observed in 2018 on the back of monetary policy normalization by the US Federal Reserve. The average 180-day London Interbank Offered Rate (LIBOR) settled at 2.6 percent in January – June 2019, within the original and adjusted 2019 DBCC assumptions of 2.0 – 3.0 percent and 2.5 – 3.5 percent, respectively.

27. **In the foreign exchange market, the peso-dollar exchange rate averaged at ₱52.21/US$1 during the first six months of 2019, within the original DBCC assumption of ₱50.00 – 53.00/US$1 and the revised DBCC assumption of ₱51.00 – 53.00/US$1 for 2019.** The mean exchange rate in the first half of 2019 was slightly higher than the ₱51.95/US$1-average in the same period in 2018 but lower than the 2018 full-year average of ₱52.66/US$1. Slower inflation and the move to a dovish policy outlook in the US contributed to a slight appreciation in the Philippine peso against the US dollar in recent months. Meanwhile, concerns over dimmer global growth prospects and heightened trade friction between US and China posed depreciation pressures on the peso.

28. **Concerns over weakness in global oil demand as well as escalation of US-China trade tensions pulled down global crude oil prices in the first half of the year.** This followed the rise in global crude oil prices in 2018 due to

production cuts by members of the Organization of the Petroleum Exporting Countries (OPEC), US sanctions on Iran, and lower oil supply from Venezuela. Dubai crude oil price declined to US$65.44 per barrel in January – June 2019 from its per-barrel average price of US$67.99 in the same period in 2018 and US$69.42 in full-year 2018. This is within the revised 2019 DBCC assumption of US$60.00 – 75.00 per barrel but above the high-end of the original assumptions of US$50.00 – 65.00 per barrel.

29. **Exports of goods declined slightly to US$25.9 billion in the first semester of 2019 from US$26 billion in the same period last year.** Contributing largely to the decrease in exports of goods were lower shipments of manufactures, primarily machinery and transport equipment (12.8 percent), and other manufactures (10.8 percent), and coconut products, notably coconut oil (13.8 percent) as a result of the marked decline in its world market price, even as export volume increased. These more than offset the growth recorded in the other commodity groups, particularly fruits and vegetables, mainly bananas, and mineral products during the period.

30. **Imports of goods rose to US$49.5 billion in the first six months of 2019 from US$49.3 billion in the same period in 2018.** The slight improvement was mainly on account of increased imports of capital goods, which rose by 9.5 percent to reach US$14.8 billion in the first half of 2019. This development, combined with the increase in imports of consumer goods, more than compensated for the lower imports of raw materials and intermediate goods. In particular, manufactured goods and materials and accessories for the manufacture of electronics dropped by 8.9 percent and 18.8 percent, respectively, in the first semester of 2019. Imports of mineral fuels and lubricant likewise declined by 2.4 percent to US$6.4 billion in the first half of 2019 brought about by the decreased importation of petroleum crude (23 percent) as both import volume and world market price declined. Import volume of petroleum crude in January-June 2019 dropped by 22.6 percent to 31 million barrels from 40 million barrels in the same period in 2018.

FY 2019 Fiscal Program

31. **The FY 2019 Fiscal Program was adjusted to take into account the reenacted budget during the first four months of 2019.** Revenue and disbursement programs were lowered when compared to the levels proposed in the FY 2019 BESF due to changes in revenue assumptions and expected lower expenditures following the delays in the approval of the FY 2019 GAA and election ban. Revenues were revised downwards to P3.150 trillion from P3.208 trillion due to the delisting of revenue measures originally proposed under Package 1B, partial implementation of tax administrative measures, and the base effect of the actual 2018 revenue collections. On the other hand, disbursements were adjusted to P3.77 trillion from P3.833 trillion considering the unintended implementation delays due to the late approval of the 2019 budget and election ban. Moreover, the enacted P3.662 trillion FY 2019 GAA was lower when compared to the P3.767 trillion proposed expenditure program with the Presidential veto of some items of appropriation in the Department of Public Works and Highways (DPWH) budget amounting to P95.4 billion for not being part of the programmed priorities.

Table 5. Fiscal Aggregates, 2019 Projection vs. Program
(In billion pesos)

Particulars	2019		Variance	
	Projection 1/	Program 2/	Amount	Percent
Revenues	3,208.2	3,149.7	(58.5)	*(1.8)*
Disbursements	3,832.6	3,769.7	(62.9)	*(1.6)*
Surplus/(Deficit)	(624.4)	(620.0)	4.4	*(0.7)*

1/ Projection for FY 2019. Presented in the FY 2019 BESF.

2/ Approved by the DBCC on July 17, 2019. Preliminary and subject to updating.

Source: DBM and DOF

32. **The vetoed P95.4 billion items of appropriations pertains to local infrastructure projects and does not affect the national infrastructure flagship programs of the NG.** Moreover, this can be offset by some P105.8 billion unobligated allotments[18] in 2018 for capital outlays which can still be

[18] Based on the FY 2018 Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (SAAODB) for the period January 1 to December 31, 2018. Report is posted on the DBM website and can be accessed thru this link: https://www.dbm.gov.ph/wp-content/uploads/e-Fund_Releases/SAOB2018/4thQuarter/Final-Revised/2018%20SAAODB-Q4-DEPARTMENT.pdf

used and spent this 2019 following the extension of the availability of the FY 2018 appropriations for Maintenance and Other Operating Expenses (MOOE) and Capital Outlays (CO) pursuant to the Congress Joint Resolution (J.R.) No. 3 dated December 26, 2018.

33. **Nonetheless, the revised program aims to minimize investment slowdown and buttress economic growth to the 6.0 to 7.0 percent target.** In particular, infrastructure disbursements for the year, which consist of the infrastructure activities implemented by the NG Agencies, and transfers to GOCCs and Local Government Units (LGUs) intended for infrastructure projects, is targeted to reach P1.0 trillion, 12.9 percent higher year-on-year and equivalent to 5.2 percent of GDP. This will be supported by the P803.0 billion combined infrastructure spending commitment[19] of the DPWH (P725.0 billion) and Department of Transportation (DOTr) Rail Sector (P78.0 billion).

34. **While there were changes in the programmed revenues and disbursements for this year, the FY 2019 deficit is still maintained at 3.2 percent of GDP.** The accelerated spending in the following quarters will enable the government to reach the deficit target of P620.0 billion.

Impact of the Reenacted Budget in 2019

35. **Some P582.8 billion[20] worth of new programs and projects could not be readily implemented with the late approval of the FY 2019 GAA.** The bulk of this amount is intended for road and transport infrastructure projects that will be implemented by the DPWH and DOTr amounting to P458.8 billion and P28.3 billion, respectively.[21] These include various capital outlay projects such as right-of-way acquisition crucial to the implementation of big-ticket infrastructure projects, rehabilitation of disaster-related infrastructure and facilities, roads and bridges, and flood control projects. Likewise, the Social Services Sector was also affected given the various capital outlay projects of SUCs pertaining to the repair and rehabilitation of school facilities and acquisition of equipment, as well as the Tax Reform Cash Transfer Project (or the UCT Program) of the DSWD with the LandBank as conduit which could not be implemented with the reenactment of the budget.

[19] As committed by both departments to the Economic Development Cluster on May 23, 2019.
[20] Estimated based on DBM-BMB submissions of new programs and projects that will be affected by a reenacted budget. Data provided by the DBM-Budget Technical Bureau (BTB) on March 12, 2019.
[21] Based on data from DBM-BMB-A.

36. **While the FY 2019 Budget was approved in mid-April this year, the election ban was already in effect causing further unintended delays and slippages in the implementation of new programs and projects.** Spending would have been on track if the budget was enacted on a timely basis enabling the agencies to have awarded contracts and started implementation way before the start of election ban on March 29, 2019. This is more so as more agencies undertook early procurement activities. Since the line agencies were still obligating and starting to implement new infrastructure projects towards the end of the second quarter, partial completion and deliveries, and corresponding progress billings can still be expected this second semester.

37. **Economic growth is adversely affected by the budget reenactment.** The National Economic and Development Authority (NEDA) estimated that the four (4) month-delay in the approval of the 2019 Budget will cut GDP growth for the year by 0.7 to 0.9 ppt. Meanwhile, a full-year reenacted budget can trim down GDP growth by 2.1 to 2.8 ppt[22]. The economic performance for the first semester was weaker when compared to a year ago[23], and against the 6.0-7.0 percent growth target for the year:

a. GDP grew by 5.6 percent in Q1, and at a slightly slower pace of 5.5 percent in Q2. In 2018, the economy expanded by 6.5 percent and 6.2 percent in Q1 and Q2, respectively.
b. The growth of government final consumption expenditure was slower this year at 7.4 percent in Q1 and 6.9 percent in Q2, compared to 13.6 percent and 11.9 percent in Q1 and Q2 of the previous year.
c. Public construction contracted by 8.6 percent in Q1 and by 27.2 percent in Q2 this year, from 22.6 percent expansion in Q1 and 20.9 percent growth in Q2 of the previous year.

38. **The expected reduction in GDP is largely due to the lower contribution of the government to the economy with the delays in the implementation of new programs and projects.** The lower economic output could result in the following: i) lesser employment and livelihood opportunities due to weak domestic economic activity; ii) fanning inflationary pressures because

[22] Projections presented during the 175th DBCC Meeting on March 13, 2019.
[23] National Accounts of the Philippines as of June 2019, Philippine Statistics Authority.

the low quality of public infrastructures, such as roads, bridges, and airports, could increase operational costs; and iii) undermining of the government's efforts and gains in reducing poverty and unemployment rates.

Measures undertaken by the government to minimize the impact of late approval of the FY 2019 GAA

39. **The government has put in place procurement-related measures as early as 2018 to ensure the timely execution of the budget.** The Department of Budget and Management (DBM) issued Circular Letter (CL) No. 2018-8 dated July 30, 2018 prescribing guidelines on the conduct of early procurement for the FY 2019 National Expenditure Program (NEP) to enable line agencies to proceed with their procurement activities short of award as soon as the proposed budget is submitted to Congress. Further, the Government Procurement Policy Board (GPPB) issued Circular 09-2018 dated December 20, 2018 to guide agencies on the award of contracts undertaken through early procurement activities under a Reenacted Budget to ensure smooth and continuous implementation pending the enactment of the FY 2019 GAA and avoid the need for rebidding. Meanwhile, the Commission on Elections (COMELEC) issued Resolution No. 18-1127-3 confirming the exemption of procurement activities of Public-Private Partnership (PPP) Projects under the Build-Operate-Transfer (BOT) Law, NEDA Joint Venture Guidelines, and LGU PPP Ordinance from the prohibited activities during the period of elections[24].

40. **The DBM issued Circular Letter No. 2019-1 dated January 3, 2019 on the guidelines for fund releases under the reenacted budget pending the enactment of FY 2019 GAA.** The Circular was intended to facilitate the implementation of the budget, including capital outlays despite the reenacted budget.

41. **The Economic Managers requested the COMELEC on February 18, 2019 to exempt the priority infrastructure projects from the election ban.** The list includes: i) 145 programs and projects, as submitted by the concerned

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[24] Section 261 (v) and (w) of the Omnibus Election Code.

agencies to the DBM and included in the FY 2019 General Appropriations Bill, and ii) the DPWH's 603 programs and projects with FY 2019 investment targets included in the updated 2017-2022 Public Investment Program as input to the FY 2019 Budget Preparation. The proposed exemption would facilitate implementation and ensure that there are no delays and disruption of these national priority projects. However, the COMELEC responded on March 26, 2019, or just 3 days before the election ban, requesting for additional details and information on the lists of projects submitted by the Economic Team. As a result, the said request for exemption was no longer pursued.

FY 2019 First Semester Fiscal Performance

Revenue Performance

Table 6. National Government Revenue Performance, January to June 2019

(In billion pesos)

NG Fiscal Position	2018 Jan-June Actual	2019 Jan-June		% Growth	% Variance Actual vs Program
		Program	Actual	Y-o-Y	
Total Revenues	**1,410.5**	**1,543.4**	**1,547.5**	**9.7%**	**0.3%**
Tax Revenues	**1,254.7**	**1,444.0**	**1,380.9**	**10.1%**	**-4.4%**
BIR	964.5	1,126.8	1,066.4	10.6%	-5.4%
BOC	279.4	305.1	303.0	8.5%	-0.7%
Other Offices	10.8	12.2	11.6	6.8%	-5.4%
Non-Tax Revenues	**141.4**	**99.3**	**166.4**	**17.6%**	**67.5%**
Fees & Charges	22.8	25.1	24.4	7.0%	-2.9%
Bureau of Treasury	66.2	43.7	87.6	32.5%	100.5%
Other Non-Tax	52.5	30.5	54.4	3.5%	77.7%
Privatization	**14.4**	**-**	**0.3**	**-98.2%**	**0.0%**
Expenditure	**1,603.6**	**1,716.0**	**1,590.2**	**-0.8%**	**-7.3%**
Surplus/(Deficit)	**(193.0)**	**(172.6)**	**(42.6)**	**-77.9%**	**-75.3%**

Source: DOF

42. **Revenue collections for the first half of 2019 reached P1,547.5 billion.** This is 9.7 percent higher than last year's collections for the same period, and is 0.3 percent higher than the P1,543.4 billion target.

43. **Tax revenues, which account for 89.2 percent of total revenues, grew by 10.1 percent but still fell short of the target by 4.4 percent.** Tax collections

from the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) grew by 10.6 percent and 8.5 percent, respectively. Meanwhile, tax collections from other offices registered a 6.8 percent growth.

44. **Non-tax revenues for the first half of 2019 amounted to P166.4 billion, 17.6 percent higher compared to the first half of 2018.** Total income collected by Bureau of Treasury (BTr) increased by 32.5 percent year-on-year due to high income from guarantee fees, NG share in the profits of PAGCOR, and dividend remittances on NG shares of stocks. The BTr already reached its 2019 full year target during the first six months of the year. Collections from fees and charges grew by 7.0 percent while other non-tax collections, which included grants, grew by 3.5 percent. On the other hand, Privatization proceeds totalled P262 million, down by 98.2 percent largely due to the one-off P13.5 billion Presidential Commission on Good Government (PCGG) transaction for the transfer of United Coconut Planters Bank (UCPB) bond proceeds to the Special Account in the General Fund (SAGF).

45. **Preliminary data show that TRAIN revenues reached P55.6 billion in the first half of 2019, compared to the target for the same period of P52.1 billion.** Actual TRAIN revenues were P3.5 billion or 6.8 percent above target. The BIR exceeded target by P1.8 billion, while the BOC exceeded target by P1.7 billion. TRAIN proceeds increased by 65.0 percent from last year's first semester outturn.

Table 7. TRAIN Revenues, January to June 2019
(In billion pesos)

Particulars	2018 Jan-June Actual	2019 Jan-June		Variance		Increase/ (Decrease)	
		Program	Actual	Amount	Percent	Amount	Percent
Bureau of Internal Revenue	14.4	12.0	13.8	1.8	15.0%	(0.6)	-4.2%
Bureau of Customs	19.3	40.1	41.8	1.7	4.2%	22.5	116.6%
Total TRAIN Collections	**33.7**	**52.1**	**55.6**	**3.5**	**6.8%**	**21.9**	**65.0%**

Source: DOF

46. **The increase in government receipts and contraction in government spending reduced the deficit for the first semester of 2019 to P42.6 billion or 77.9 percent lower than the same period last year.** The delay in the passage of the FY 2019 National Budget constrained the government from immediately implementing new programs and projects, triggering the slowdown in government expenditures.

Bureau of Internal Revenue[25]

47. **Total BIR collections reached P1,066.4 billion for the first six months of 2019, net of tax refund amounting to P6.1 billion.** The first semester collection increased by 10.6 percent from P964.5 billion collected in the same period in 2018, but below the program by 5.4 percent.

48. **Tax administrative measures also contributed to the growth in revenue collection for the period.** These measures included the nationwide implementation of comprehensive taxpayer profiling and industry benchmarking activities to cover an expanded list of industries; broadening of tax base by registering unregistered tax payers as a result of tax compliance verification drive (TCVD) and third party information; updating of zonal value schedules; and the implementation of other administrative measures. These measures enhanced the implementation of BIR's priority programs such as the Run After Tax Evaders (RATE) and Oplan Kandado. The BIR also continued its comprehensive awareness campaign to educate taxpayers, implementation of various e-Services for ease of filing and payment of taxes, streamlining of its processes and reduction of documentary requirements, among others.

49. **The Taxes on Net Income and Profit/Income Taxes (IT) being the major source of BIR's revenue collections accounted for 53.1 percent of the total collection.** Value Added Tax (VAT) and Excise Tax (ET) also had significant shares to revenues at 17.5 percent and 16.0 percent, respectively. The remaining tax types contributed 13.5 percent to the total collections.

50. **Income Taxes (IT) collections reached P565.7 billion for the first six months, up by 10.5 percent year-on-year and equivalent to 99.4 percent of the target.** The growth resulted from the upbeat sales/revenues from industries such as banks, construction, power, and transport, and higher income payments from local suppliers of goods and services.

51. **Excise Tax (ET) collections amounted to P170.2 billion.** This was 11.2 percent higher year-on-year due to the continuous implementation of the R.A. 10963, although lower by 13.9 percent when compared to the target for the period.

[25] Based on the submission of the Bureau of Internal Revenue.

52. **Value-Added Tax (VAT) receipts grew by 9.7 percent.** This was faster than the previous year's growth of 8.9 percent. The year-on-year growth of percentage tax collections also improved to 17.2 percent. Compared to the program, VAT collections were short by 15.7 percent, while percentage taxes were higher by 34.5 percent.

53. **Collections from other taxes rose by 18.1 percent compared to 2018.** Also, Documentary Stamp Tax (DST) grew by 8.2 percent vis-à-vis the level for the first half of 2018. Both taxes surpassed the target by 136.2 percent and 5.9 percent, respectively.

Table 8. BIR Collection Performance, January to June 2019

(In billion pesos)

Particulars	2018 Jan-June Actual	2019 Jan-June		Increase/ (Decrease)		2019 Actual vs Program
		Program	Actual	Amount	Percent	% Collection
Total BIR Collections	**964.5**	**1,126.8**	**1,066.4**	**101.8**	**10.6%**	**94.6%**
Taxes on Net Income and Profits	511.9	569.0	565.7	54.0	10.5%	99.4%
Taxes on Property	3.4	22.2	2.8	(0.6)	-17.5%	12.4%
Taxes on Domestic Goods and Services	449.3	535.5	497.9	50.1	11.0%	93.0%
Value-Added Tax	171.1	221.5	186.8	17.1	9.7%	84.3%
Excise Tax	153.1	197.8	170.2	17.1	11.2%	86.1%
Percentage Taxes	51.0	44.5	59.8	8.8	17.2%	134.5%
Franchise Taxes	0.1	0.4	0.4	0.3	234.4%	116.7%
Documentary Stamp Tax (DST)	66.1	67.5	71.5	5.4	8.2%	105.9%
Other Taxes	7.8	3.9	9.3	1.4	18.1%	236.2%

Source: DOF

Bureau of Customs[26]

54. **The BOC collected P303.0 billion for January to June 2019, higher by P23.6 billion or 8.5 percent when compared with the collections for the same period last year.** The stronger collection performance of the Bureau is attributed to higher actual foreign exchange rate vis-à-vis program (P52.21/US$ vs P52.00/US$), lower actual tax credit application compared to program (P3.8 billion vs P4.2 billion), lower actual deferred payments compared with the projected amount (P7.1 billion vs P9.5 billion), and higher actual collection from rice tariffication compared with the programmed collection (P5.9 billion vs P5.2 billion). Moreover, the strengthened campaign against illegal trade and for revenue enhancement,

[26] Based on the submission of the Bureau of Customs.

and strong enforcement contributed to the higher revenue collection of the Bureau.

55. **However, collections were below the program by 3.0 percent.** This is mainly on account of lower import volumes (26.1 million barrels vs 42.5 million barrels), lower crude oil prices (US$65.20/bbl; vs US$68.00/bbl), and lower actual average tariff rate on dutiable non-oil imports from the target (6.2 percent vs 9.9 percent).

Table 9. BOC Collection Performance, January to June 2019
(In billion pesos)

Particulars	2018 Jan-June Actual	2019 Jan-June		Increase/ (Decrease)		2019 Actual vs Program
		Program	Actual	Amount	Percent	% Collection
Total BOC Collections	**279.4**	**312.4**	**303.0**	**23.6**	**8.5%**	**97.0%**
Import Duties/Taxes	35.4	29.0	43.6	8.3	23.3%	150.6%
VAT on Imports	197.3	221.5	200.9	3.6	1.8%	90.7%
Spec (Excise)	46.6	61.3	57.6	11.1	23.8%	94.1%
Other Collections	0.1	0.6	0.9	0.7	571.5%	142.9%

Source: DOF

Borrowing Performance

National Government Financing

56. **As of June 2019, the NG raised P840.8 billion in gross financing which already covered 71.0 percent of the P1,188.9 billion full year program to fund the budget gap and the refinancing requirement of P108.7 billion.** As a result of the frontloaded borrowing strategy, actual financing for the first semester is 9.6 percent higher than programmed for the period. The mid-year borrowing mix stood at 73.0 percent domestic and 27.0 percent external.

Table 10. National Government Financing, 2019
(In million pesos)

Particulars	Jan-June 2019			%	Full-year 2019	
	Program	Actual	Diff		Program 2/	Revised Program 3/
NET FINANCING	**652,445**	**732,180**	**79,735**	**12.2%**	**1,042,632**	**1,046,244**
External Borrowing (Net)	105,443	117,467	12,024	11.4%	140,003	178,351
External Borrowing (Gross)	218,227	225,477	7,250	3.3%	282,734	317,540
Project Loans	16,710	20,391	3,681	22.0%	33,425	32,807
Program Loans	66,517	64,693	-1,824	-2.7%	87,309	88,474
Bonds and Other Inflows	135,000	140,393	5,393	4.0%	162,000	196,259
Less: Amortization	112,784	108,010	-4,774	-4.2%	142,731	139,189
Domestic Borrowing (Net)	547,002	614,713	67,711	12.4%	902,629	867,893
Domestic Borrowings (Gross)	548,647	615,360	66,713	12.2%	906,154	871,348
Treasury Bills	158,647	158,028	-619	-0.4%	54,482	54,482
Treasury Bonds	390,000	457,332	67,332	17.3%	851,672	816,866
Less: Net Amortization	1,645	647	-998	-60.7%	3,525	3,455
Amortization	*98,171*	*97,173*	-998	-1.0%	*345,605*	*345,535*
o/w Serviced by the BSF 1/	*96,526*	*96,526*	0	0.0%	*342,080*	*342,080*
GROSS FINANCING	**766,874**	**840,837**	**73,963**	**9.6%**	**1,188,888**	**1,188,888**
Financing Mix (% of Total)						
External	28%	27%			24%	27%
Domestic	72%	73%			76%	73%

1/ Actual redemption from Sinking Fund
2/ Based on BESF 2019 Table D.1
3/ Based on BESF 2020 Table D.1
Source: BTr

57. **Gross domestic financing was 12.2 percent higher than the program of P548.6 billion.** Of the total, 74.0 percent was generated from the issuances of mid- and long-tenor (7-,10- and 20-year) fixed rate government securities with a total of P221.5 billion and the 22nd Series of retail treasury bonds (5-year) amounting to P235.8 billion. The latter was in line with the objective of the NG to mobilize small savings, promote investment and increase savings awareness among individuals. Meanwhile, net treasury bills amounted to P158.0 billion comprising 26.0 percent of total domestic gross borrowings and well within the program with total gross issuances of P394.3 billion and redemption of P236.3 billion. On the other hand, total domestic amortization amounted to P97.2 billion which includes the P96.5 billion covered by the Bond Sinking Fund (BSF). Principal payments not covered by the BSF were 60.7 percent below program owing to lower actual redemption of Agrarian Reform bonds during the first half of the year.

58. **External gross financing of P225.5 billion was 3.3 percent above the six-month program and made up 71.0 percent of the revised full year program.** Of the total requirements, 62.0 percent was raised through the issuance of 10-Yr US dollar-, 3-Yr renminbi-, and 8-Yr euro-denominated bonds amounting to P78.0 billion (USD1.5 billion), P18.9 billion (RMB2.5 billion) and P43.5 billion (EUR750 million), respectively. Meanwhile, twenty-nine percent (29%) of loan availments came from program loans, the bulk of which was sourced from the Asian Development Bank (ADB) and the International Bank for Reconstruction and Development (IBRD), specifically: (1) P15.8 billion (USD300 million) from ADB for *Expanding Private Participation in Infrastructure Program2*; (2) P15.8 billion (USD300 million) from ADB for *Inclusive Finance Development Program, SubProgram1*; and (3) P10.3 billion (USD200 million) from IBRD's *Improving Fiscal Management Development Policy Loan*.

59. **Project loans contributed 9.0 percent of the total external financing, largely obtained from Japan International Cooperation Agency (JICA) and International Bank for Reconstruction and Development (IBRD) amounting to P8.1 billion and P3.6 billion, respectively.** Out of the total project availment of P8.1 billion from JICA in March and April 2019, 41.0 percent or P3.3 billion went to the North-South Commuter Railway project of the Department of Transportation. Meanwhile, 45.0 percent (P1.6 billion), 25.0 percent (P898 million) and another 25.0 percent (P887 million) of the total IBRD loan was availed for the Rural Development Project of the Department of Agriculture, Additional Financing for Rural Development Project of the DAR, and *Kapit-Bisig Laban sa Kahirapan Comprehensive and Integrated Delivery of Social Services* (KALAHI-CIDSS) National Community Drive of the DSWD, respectively.

60. **Total external amortization of P108.0 billion was slightly below the program for the period** as a result of better actual foreign exchange rate than projected for the year.

61. **For the rest of the year, the NG will borrow primarily in local currency to finance the budget and continue to reduce the country's exposure to foreign currency volatility.** Meantime, the remaining external financing will be sourced from the balance of program and project loans programmed for the year as well as the planned issuance of debt securities in the Yen market. With this, the projected revised financing mix for 2019 is set at 73:27.

National Government Debt

62. **NG debt stood at P7,868.6 billion as of end-June 2019, reflecting a P576.1 billion or 7.9 percent increment from its end-2018 level.** Year-on-year NG debt growth was equivalent to P852.4 or 12.1 percent. Of the total stock, P2,573.8 billion or 32.7 percent was sourced from external markets while P5,294.8 billion or 67.3 percent was borrowed domestically.

63. **Local currency debt increased its share to 68.6 percent as of end-June from 66.9 percent at the end of 2018.** The higher local currency component is consistent with the debt management objective of reducing the share of foreign currency debt and increasing reliance on domestic financing to mitigate exposure to exchange rate swings. This has been achieved even as external issuances are diversified to take advantage of foreign demand. Broken down, USD, JPY, EUR and other currencies account for 24.7 percent, 5.01 percent, 0.98 percent and 0.69 percent of the foreign currency debt, respectively.

64. **The debt portfolio maintains minimal sensitivity to adverse swings in interest rates.** As of end-June 2019, only 8.87 percent of the total debt portfolio is subject to resetting from 8.90 percent for end-December 2018.

65. **Average residual maturity of 9.7 years is still within the upper bound of the 7-10 year target.** Year-to-date, average maturity for domestic debt decreased to 6.71 years from 7.13 while external debt maturity increased to 12.39 years from 12.24 as of end-2018, respectively. The resulting total average residual maturity has gone down to 9.7 years from 10.38 years at the beginning of the year.

66. **Slightly higher weighted average interest rate (WAIR) reflects upward adjustments in domestic interest rates in the first semester.** Portfolio WAIR as of end-June increased to 5.09 percent from 5.05 percent at the beginning of the year as average domestic rates inched up to 5.54 percent from 5.05 percent over the reference period. Meanwhile, external WAIR improved to 4.15 percent from 4.34 percent at the start of 2019.

67. **Interest payments for the first semester of 2019 amounted to P180.1 billion, P14.6 billion or 8.8 percent higher than the payments made in 2018.** As a percentage of expenditures, interest payments for the period accounted for 11.3 percent compared with 10.3 percent a year ago, as non-

interest payment component of NG expenditures were lower due to the reenacted budget. Meanwhile, interest payments as a percentage of total revenues declined to 11.6 percent from 11.7 percent over the same period.

Table 11. National Government Debt, end-June 2019

(In million pesos)

Particulars	June 2018	Dec 2018	June 2019	Y-o-Y Variance	YTD Variance
Total NG Debt	**7,016,191**	**7,292,500**	**7,868,634**	**12.1%**	**7.9%**
External	2,437,108	2,515,641	2,573,804	5.6%	2.3%
Domestic	4,579,083	4,776,859	5,294,830	15.6%	10.8%
% of Total					
External	35%	34%	33%		
Domestic	65%	66%	67%		
% of GDP	42.39%	41.85%	43.71%		
External	14.72%	14.44%	14.30%		
Domestic	27.66%	27.41%	29.41%		
Total NG Debt by Instrument	**7,016,191**	**7,292,500**	**7,868,634**	**12.1%**	**7.9%**
Loans	921,638	948,209	979,735	6.3%	3.3%
Debt Securities	6,094,553	6,344,291	6,888,899	13.0%	8.6%
Total NG Debt by Currency	**7,016,191**	**7,292,500**	**7,868,634**	**12.1%**	**13.0%**
Peso Denominated	4,682,060	4,880,256	5,398,892	15.3%	10.6%
Foreign Currency Denominated	2,334,131	2,412,244	2,469,742	5.8%	2.4%
Average Maturity (years)[a/]	**9.92**	**10.38**	**9.7**		
External	12.71	12.24	12.39		
Domestic	7.36	7.13	6.71		
Weighted Ave. Interest Rate	**4.91**	**5.05**	**5.09**		
External	4.3	4.34	4.15		
Domestic	5.24	5.42	5.54		
Interest Rate Mix	**100.0%**	**100.0%**	**100.0%**		
Fixed	91.2%	91.0%	91.0%		
Floating	8.7%	8.9%	8.9%		
Interest Free	0.2%	0.1%	0.1%		
Total Interest Payments	**165,510**	**349,215**	**180,071**	**8.8%**	
External	50,938	105,983	57,482	12.8%	
Domestic	114,572	243,232	122,589	7.0%	
% of GDP					
Total Interest Payments	2.0%	2.0%	2.0%		
External	0.6%	0.6%	0.7%		
Domestic	1.4%	1.4%	1.4%		
% of NG Expenditures					
Total Interest Payments	10.3%	10.3%	11.3%		
External	3.2%	3.1%	3.6%		
Domestic	7.1%	7.1%	7.7%		
% of NG Revenues					
Total Interest Payments	11.7%	12.3%	11.6%		
External	3.6%	3.7%	3.7%		
Domestic	8.1%	8.5%	7.9%		
Memo Items					
GDP	16,552,327	17,426,202	18,002,538		
GDP S1 2019 (flow)	8,256,103	-	8,832,439		
Peso/USD	53.404	52.563	51.233		
Expenditures	1,603,559	3,408,443	1,590,190		
Revenues	1,410,542	2,850,184	1,547,543		

a/ Average Maturity measured in years on residual basis

Source: BTr

Expenditure Performance

68. **The budget utilization of the NG for the first semester of 2019 was inevitably lower when compared for the same period last year mainly on account of the budget reenactment and election ban.** The available appropriations[27] for the year totalled P3.897 trillion, consisting of the P3.661 trillion FY 2019 Budget, P209.8 billion continuing appropriations[28], and some P25.6 billion from unprogrammed and other automatic appropriations. Of this amount, P3.298 trillion allotments were released as of end-June 2019, representing 84.6 percent of the available appropriations for the year. However, total obligations incurred for the first semester of 2019 amounted to P1.513 trillion, for an obligation rate of 45.9 percent. This was slower when compared to the 51.4 percent posted for the same period last year. This was expected as the government operated under a reenacted budget until mid-April of this year and new programs and projects as proposed in the FY 2019 GAA were not implemented. Nevertheless, agencies have already started awarding contracts, and program and project implementation is underway.

Table 12. Statement of Appropriations, Allotments, Obligations, Balances and Disbursements January to June 2019

(In billion pesos)

Particulars	Available Appropriations 1/	Allotment Releases	Actual Obligations	Unobligated Balances	Obligation Rate 2/	Disbursements 3/
National Government Agencies	**2,518.4**	**2,243.7**	**963.5**	**1,280.1**	***42.9***	**1,391.3** 4/
Special Purpose Funds (SPFs)	**947.5**	**640.1**	**350.8**	**289.3**	***54.8***	**323.0**
GOCCs	189.7	58.0	58.0	-	*100.0*	27.3
ALGUs	664.2	582.1	292.7	289.3	*50.3*	295.7
Other SPFs	93.6			-	-	-
Automatic Appropriations	**431.1**	**414.1**	**198.9**	**215.2**	***48.0***	**198.9**
Net Lending	14.5	14.5	18.8	(4.3)	*129.7*	18.8
Interest Payments	399.6	399.6	180.1	219.5	*45.1*	180.1
Other Automatic	17.1			-	-	
Total	**3,897.0**	**3,297.8**	**1,513.2**	**1,784.6**	***45.9***	**1,590.2**
By Funding Source	**3,897.0**	**3,297.8**	**1,513.2**	**1,784.6**		
Current Year	3,687.3	3,122.3	1,456.4	1,665.9	-	-
Continuing Appropriations	209.8	175.6	56.8	118.8	-	-

Source: Statement of Appropriations, Allotments, Obligations, Disbursements and Balances (DBM), and Cash Operations Report (BTr)

1/ Pertain to the 2019 GAA, the 2018 GAA as reenacted, automatic appropriations, 2018 continuing appropriations and unobligated allotments. Include adjustments per Special Provisions in the GAA, realignments of allotment classes and releases to implementing units from SPFs, Unprogrammed and Automatic Appropriations.

2/ Percentage of obligations vs allotment releases.

3/ Based on the Cash Operations Report of the Bureau of the Treasury. Includes disbursements from prior years' obligations.

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[27]Pertain to the 2019 GAA, the 2018 GAA as reenacted, automatic appropriations, 2018 continuing appropriations and unobligated allotments. Include adjustments per Special Provisions in the GAA, realignments of allotment classes and releases to implementing units from SPFs, Unprogrammed and Automatic Appropriations.

[28]Pursuant to Congress Joint Resolution No. 3, dated December 26, 2018.

69. **NG disbursements for the first six months of 2019, likewise, slightly slowed down to P1.590 trillion or 0.8 percent from P1.604 trillion recorded for the same months last year.**[29] It also fell against the P1.716 trillion preliminary program[30] for the period by P125.8 billion or 7.3 percent. Spending was dampened by the negative growth posted in infrastructure and other capital outlays which reached P311.4 billion, down by 11.7 percent year-on-year and 20.8 percent below the program. Subsidy and capital transfers to LGUs also declined year-on-year by 60.6 percent (P41.0 billion) and 29.0 percent (P26.8 billion), respectively. Both were lower when compared to the program by 45.9 percent and 23.2 percent. The weaker government disbursements were mainly on account of the reenactment of the 2018 Budget during the first four months of the year, as well as the election ban, which impeded the implementation of new programs and projects of the government.

Table 13. National Government Disbursements, January to June 2019
(In billion pesos)

PARTICULARS	January to June			Variance		Increase/ (Decrease)	
	2018	2019					
	Actual	Program 1/	Actual	Amount	Percent	Amount	Percent
CURRENT OPERATING EXPENDITURES	**1,154.7**	**1,233.8**	**1,193.9**	**(39.8)**	***(3.2)***	**39.3**	***3.4***
Personnel Services	460.5	511.7	503.3	(8.4)	*(1.6)*	42.8	*9.3*
Maintenance and Other Operating Exp.	242.1	250.8	242.1	(8.8)	*(3.5)*	(0.1)	*(0.0)*
Subsidy	67.7	49.4	26.7	(22.7)	*(45.9)*	(41.0)	*(60.6)*
Allotment to LGUs	210.6	233.8	230.2	(3.6)	*(1.6)*	19.6	*9.3*
Interest Payments	165.5	180.3	180.1	(0.3)	*(0.1)*	14.6	*8.8*
Tax Expenditure	8.2	7.7	11.6	3.9	*51.3*	3.4	*41.0*
CAPITAL OUTLAYS	**447.5**	**478.7**	**377.5**	**(101.2)**	***(21.1)***	**(70.1)**	***(15.7)***
Infrastructure/Other Capital Outlays	352.7	392.9	311.4	(81.5)	*(20.8)*	(41.3)	*(11.7)*
Equity	2.6	0.5	0.6	0.1	*22.8*	(2.0)	*(77.7)*
Capital Transfers to LGUs	92.3	85.3	65.5	(19.8)	*(23.2)*	(26.8)	*(29.0)*
NET LENDING	**1.4**	**3.5**	**18.8**	**15.3**	***432.9***	**17.4**	***1,273.1***
GRAND TOTAL	**1,603.6**	**1,716.0**	**1,590.2**	**(125.8)**	***(7.3)***	**(13.4)**	***(0.8)***
Memo items:							
Revenues	1,410.5	1,543.4	1,547.5	4.2	*0.3*	137.0	*9.7*
Surplus/(Deficit)	*(193.0)*	*(172.6)*	*(42.6)*	129.9	*(75.3)*	150.4	*(77.9)*

1/ Preliminary and subject to updating. The quarterly targets are initially based on seasonality of disbursements pending the availability of the revised DBM-evaluated MDP (FY 2019 GAA level).

[29] For further reading, check Assessment of NG Disbursement Performance as of June 2019 posted on the DBM website and can be accessed thru this link: https://www.dbm.gov.ph/index.php/dbcc-matters/reports/ng-disbursement-performance/1419-2019-ng-disbursement-performance

[30] Preliminary program for the first semester 2019 estimated based on seasonality of disbursements. Subject to updating based on the revised DBM-evaluated Monthly Disbursement Program (FY 2019 GAA Levels) submissions of agencies.

70. **The contraction in infrastructure outlays was tempered by the positive growth rates recorded in personnel services expenditures and other automatically appropriated items.** Personnel services increased by P42.8 billion or 9.3 percent owing to the higher base pay of state workers (both the civilian and uniformed) under the 4th tranche implementation of E.O. No. 201 s.2016, as amended[31] and J.R. No. 1, s.2018[32]. Allocations to local government units rose by P19.6 billion (9.3 percent) from last year's level due to the higher shares of LGUs from the revenue collections of the NG. On the other hand, interest payments increased by P14.6 billion due to discounts and coupon payments, while net lending increased by P17.4 billion mainly on account of the P17.9 billion advances to the National Food Authority (NFA) to settle its maturing obligations under its restructuring program following the enactment of the Rice Liberalization Act.

IV. Macroeconomic and Fiscal Outlook for the Rest of 2019

Macroeconomic Outlook

Macroeconomic Assumptions

71. **The BSP's latest baseline forecasts indicate that inflation will continue to moderate and is expected to settle within the 3.0 percent ± 1.0 ppt target range for 2019.** The risks to the inflation outlook appear to be broadly balanced for 2019. Weaker global economic prospects continue to temper the inflation outlook while the potential adverse effects of prolonged *El Niño* episode have subsided. This view on inflation prospects is, likewise, broadly aligned with inflation expectations of private sector economists and various institutions such as Capital Economics, Oxford Economics, IMF, and Asian Development Bank (ADB), among others.

[31] Executive Order No. 201 dated February 19, 2016 entitled Modifying the Salary Schedule for Civilian Government Personnel and Authorizing the Grant of Additional Benefits for Both Civilian and Military and Uniformed Personnel
[32] Joint Resolution No. 1 dated January 1, 2018 entitled Joint Resolution Authorizing the Increase in Base Pay of Military and Uniformed Personnel in the Government, and for other purposes.

72. **The average 364-day T-bill rate in the primary market is expected to fall within the revised DBCC assumption of 5.5 – 6.5 percent for 2019.** Going forward, the trend in the domestic T-bill market will continue to be influenced by the (i) NG fiscal position; (ii) future policy actions by the BSP and the US Fed; and (iii) domestic liquidity conditions. The NG's fiscal program, while supportive of the government's accelerated infrastructure program, remains manageable. Possible adjustments in the BSP's policy rate can influence the trend in 364-day T-bill rate. Similarly, further cuts in the US federal funds rate can contribute to reducing domestic interest rates. Lastly, the BSP's reduction in reserve requirement ratio can provide a boost in the country's domestic liquidity conditions in the financial system.

73. **Looking ahead, the 180-day LIBOR is expected to average within the revised DBCC assumption of 2.5 – 3.5 percent for 2019 amid weakness in global growth outlook.** Foreign interest rates will continue to be affected by the policy actions taken by major central banks in response to both domestic and global economic conditions. The US Federal Reserve is expected to be more accommodative over the near term, a shift from the gradual monetary policy normalization expected in 2018. Similarly, the European Central Bank (ECB) is expected to remain dovish given low actual and expected inflation in the Euro area. Nonetheless, escalation of US-China trade friction and disorderly Brexit can lead to volatilities in the global interest rate.

74. **Going forward, the peso will continue to be affected by external developments that likewise affect local market sentiment including the expected shift to a looser monetary policy stance in the US as well as policy uncertainty over trade negotiations between US and China.** Hints of further policy rate cuts by the US Federal Reserve can generate capital inflows to emerging markets, posing appreciation pressures on emerging market currencies such as the peso. Meanwhile, heightened trade tensions following the imposition of tariff increases by the US along with widening trade deficit pose depreciation pressures on the peso. Nonetheless, the peso is expected to be supported by positive market sentiment due to the country's investment grade status, firm macroeconomic fundamentals, and

sustained foreign exchange inflows. The DBCC assumes the peso-dollar exchange rate to average within ₱51.00 – 53.00/US$1.00 in 2019.

75. **The DBCC expects Dubai crude oil prices to average within US$60.00 – 75.00 per barrel in 2019 given the current level of global crude oil prices in the spot and futures market as well as oil forecasts by multilateral agencies.** Upside price pressures can come from OPEC production cuts, US sanctions on Iran and Venezuela, continued decline in Venezuela output, rising political risk in the Middle East (Saudi-Iran tension). Meanwhile, the increase in US oil production and the ongoing trade friction between US and China can pose downward pressure on oil prices through reduced global demand.

76. **The growth assumption for goods exports in 2019 has been revised twice since the initial projection in May 2018.**[33] For 2019, goods exports could grow by 2.0 percent, lower than the previous projection of 6.0 percent during the November 2018 Balance of Payments (BOP) reassessment, as the global economy appears to continue to tread water this year amid considerable uncertainties in the short term, headlined by the reescalation of trade tensions between the US and China. Nonetheless, the IMF, in its World Economic Outlook (WEO) in April 2019,[34] was of the view that a pickup can be expected in the second half of 2019, supported by significant policy accommodation by major economies, made possible by the absence of inflationary pressures despite closing output gaps.

77. **Apart from softer global demand, unfavorable domestic production conditions were also seen as contributing to the lower projected growth of agro-based export products for 2019 compared to previous forecasts**. Possible supply issues arising from protracted *El Niño* conditions until August 2019 as well as persistently low global prices for certain agricultural products amid ample stocks (e.g., coconut oil) may continue to drag agro-based exports value.

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[33] The BSP conducts a semi-annual formulation/review of the balance of payments (BOP) projections over a two-year horizon, which includes trade-in-goods growth assumptions. The assessment takes into account the global and domestic economic developments and outlook, as well as historical and recent performance of each account under the BOP.
[34] The latest available version at the time the reassessment of projections was made.

78. **Nevertheless, for the country's major export sector, the Semiconductor and Electronics Industries in the Philippines (SEIPI) sees a growth of 3.0 percent for the semiconductors sector in 2019.** Essentially, this is based on the technological upgrade cycle in various markets, such as automotive, consumer electronics and office equipment.

79. **The government, likewise, continues to work on diversifying the country's export offerings and markets**. In particular, the DTI has been pursuing trade initiatives and negotiations with traditional and non-traditional (e.g., Russia, Africa, Latin America and South Asia) export markets.

80. **Importation of goods is seen to grow by 7.0 percent, slightly lower than the previous assumption for the year, taking into account the slightly weaker projected growth of the domestic economy.** This revision also considers the first quarter 2019 performance of goods imports which reflected the deceleration of the domestic economic growth amid easing government spending and capital formation. Lower-than-expected growth rates were recorded in some major sub-components of capital goods imports as well as in raw materials and manufactured goods, particularly iron and steel which contracted by 11.8 percent in Q1 2019. Imports of most of these investment-driven requirements may have been affected by the delay in the passage of the FY 2019 NG Budget, as well as the election spending ban, briefly suspending the implementation of big-ticket infrastructure projects.

Growth Target

81. **The economy will have to expand by an average of at least 6.4 percent in the second half to reach the low-end of the full year growth target of 6.0-7.0 percent for 2019.** The late approval of the 2019 budget which resulted in delays in the construction of some of the government's key infrastructure projects and led to lower public spending sent a ripple effect throughout the various sectors of the economy. Nonetheless, generally positive sentiment remains toward the Philippine economy for the rest of the year based on the recent consensus forecast from private and international financial institutions.

82. **Household consumption is expected to pick up as price pressures continue to ease.** Construction activities from the government's 'Build, Build, Build' Program are also expected to generate employment, which can bolster private spending.

83. **Government expenditure is likely to increase in the second half of the year** as it expedites the implementation of the government's priority social development programs, such as the free tertiary education, the universal health care, and the expanded conditional cash transfer, among others.

84. **Investments stand to benefit from reforms that encourage private sector participation, while the BSP's recent policy rate cuts provide additional support to the business sector through lower borrowing costs.** The recent upgrade of the country's credit rating to BBB+, the highest in the Philippines' history, by Standard & Poor's Global Ratings, could boost investor confidence in the country.

85. **Agriculture Sector growth is likely to be supported by the Rice Liberalization Act.** The collected tariff revenues can help revitalize the sector, and in the process add more positive contribution to economic growth by increasing the productivity of farmers and encouraging diversification to high value crops.

86. **Industry growth will continue to be driven by construction activities.** In particular, private construction will be supported by sustained demand for office and retail spaces as well as residential units[35, 36] while the remaining key infrastructure projects of various agencies such as the DPWH and DOTr can help ramp up public construction.

87. **The Services Sector is likely to remain firm on the back of the country's aggressive tourism promotion and strong growth in real estate and renting & business activities** due to high demand for both office and residential properties from offshoring & outsourcing, offshore gaming, and corporate housing.[37] The country will also likely benefit from its hosting of the 30th Southeast Asian Games towards the end of this year.

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[35] https://business.inquirer.net/267997/adb-cuts-2019-growth-forecast-for-ph#ixzz5vvkoKF4b
[36] https://www.bworldonline.com/non-outsourcing-companies-driving-demand-for-office-spaces-colliers-report/
[37] https://www.jll.com.ph/content/dam/jll-com/documents/pdf/research/apac-2q19-metro-manila-property-market-overview.pdf

88. **On the external front, the IMF cut its global growth projections by 0.1 ppt from its April 2019 estimate to 3.2 percent in 2019 and 3.5 percent in 2020, amid escalating trade and technology tensions, prolonged Brexit uncertainty, and rising geopolitical risks.** Potential spillover effects to investor sentiment and financial markets could exacerbate the situation.[38] With this, the Philippines needs to sustain its strong macroeconomic fundamentals to withstand these external shocks while the ongoing trade disputes should be an opportunity for the country to create/strengthen new/existing trade relations. This should be coupled by a comprehensive plan which will promote product diversification and boost the production of local industries.

Fiscal Outlook

89. **The NG is expected to collect P3,149.7 billion in revenues for 2019.** This is inclusive of the estimates for TRAIN amounting to P140.6 billion. Revenue collection exceeded its target by P4.1 billion for January to June 2019. The BIR and BOC collected 94.6 percent and 99.3 percent, respectively, of their given targets. The BTr already collected its full year target for the first six months. Given the performance during the first half of the year, the FY 2019 program will be retained at P3,149.7 billion.

90. **Spending is expected to gradually recover towards the end of the third quarter.** This is manifested with the continued implementation of government programs and projects, as well as the submission of progress billings from completed and/or partially completed infrastructure projects, actual services rendered, and deliveries made from the obligations incurred during the previous months. Recent data from the BTr show uptick in government spending, by 3.4 percent in July and nearly 9.0 percent in August. Further, the disbursements program[39] of the big-spending departments are concentrated heavily on the second semester following the revision of their targets to take into account the first semester delays. Specifically, 71.8 percent of DPWH's disbursements is programmed in the second semester. The same pattern is observed with the DOH (65.5 percent), the DSWD (62.5 percent), the DepEd (56.9 percent) and the DOTr (56.5 percent). Among the other likely drivers of spending growth for the rest of

[38] IMF, World Economic Outlook, July 2019.
[39] Based on initial DBM-evaluated revised MDP submission of agencies as of July 26, 2019.

the year include: i) payouts for the *Pantawid Pamilyang Pilipino Program (4Ps)* and UCT Program of the DSWD; ii) billings for the UAQTE Program; iii) Premium subsidy for indigents and senior citizens enrolled under the National Health Insurance Program of the PHIC; iv) Performance-based and year-end bonus of qualified government employees; and v) maintenance and operating expenses of the government.

91. **Recently issued expenditure reforms aim to fast track government spending and institutionalize best PFM practices pending the approval of the Budget Modernization Bill.** The government issued E.O. No. 87 on August 13, 2019 to allow the NG to determine its actual financial condition and facilitate the preparation of transparent, accountable and realistic disbursement and annual expenditure programs. This takes into account the prior years' accounts payables in the books of account of agencies which immobilize public funds and hinder effective resource planning and allocation. Specifically, it directs all accounts payable which remain outstanding for at least two years in the books of NG Agencies to be reverted to the Accumulated Surplus or Deficit of the General Fund, or the Cumulative Results of Operations of the NG, in order to monitor and keep accounts payable at manageable levels.

    Similarly, E.O. No. 91 was issued to formalize the adoption of the cash budgeting system in the government starting this year. The measure also provides that government agencies are authorized to undertake early procurement activities (EPA)[40], short of award, to address bottlenecks in the implementation of projects, and clarifies that multi-year projects[41] are allowed under a cash budgeting system with the issuance of a Multi-Year Contractual Authority (MYCA)[42] by the DBM. The E.O. also promotes fiscal discipline and sustainability by mandating that any unreleased appropriations and unobligated allotments at the end of the fiscal year, as well as unpaid obligations and undisbursed funds at the end of the EPP

[40] Consistent with R.A. No. 9184 or the "Government Procurement Reform Act" and its Revised Implementing Rules and Regulation.
[41] Multi-year procurement projects are those with an implementation period exceeding twelve (12) months.
[42] A MYCA may likewise be issued for single-year procurement projects or those with an implementation period of twelve (12) months or less, that are either research or scientific in nature, and by design necessitate implementation covering two (2) FYs.

shall revert to the National Treasury and shall not be available for expenditure, except by subsequent legislative enactment.

NG Debt

92. **Debt as a percentage of GDP was recorded at 43.7 percent as of the end of first semester 2019, inching up by 1.32 ppt from a year ago.** Nevertheless, continued implementation of debt management strategies and economic growth is projected to bring the ratio in line with the 41.7 percent revised projection by end-2019 and 39.0 percent by 2022. Furthermore, as a result of prudent debt management strategies the structure and profile of NG debt portfolio has maintained a minimal exposure to market risks.

V. Conclusion

93. **The government's macro-fiscal performance experienced several setbacks in the first half of 2019.** The delay in the passage of the FY 2019 GAA, which severely affected economic growth, emphasizes the importance of timely enactment of the National Budget. The challenge for the rest of the year is for the government to jumpstart and speed up the implementation of its ongoing and new programs and projects to support the full-year growth target of 6.0-7.0 percent. Also crucial is to minimize exposure to external risks such as the global economic slowdown, tightening monetary policies in advanced economies which may lead to disruptive capital outflows, and trade diversion due to ongoing trade wars between key economies.

94. **The government remains upbeat that despite challenges in executing the budget this year, NG spending will catch-up with the target for 2019.** Recent spending performance based on preliminary data indicate that disbursements are gradually accelerating, and it is expected that the spending commitment of both the DPWH and the DOTr will drive disbursements for the rest of the year. The completion and/or partial completion of infrastructure works and submission of corresponding progress billings should also propel government spending in the second semester.

95. **The P4.1 trillion proposed FY 2020 Budget was submitted to Congress on August 20, 2019 and is currently undergoing deliberations.** The Executive and Legislative branches of the government have jointly committed to the early passage of the FY 2020 Budget in view of the adverse consequences of the 2019 scenario. On September 20, 2019, the Lower House approved on the third and final reading House Bill No. 4228 or the FY 2020 General Appropriations Bill which paves the way for its transmittal to and consideration of the Senate. Next year will continue to be a transition period for the implementation of the cash budgeting system to help line agencies adapt with the new system, and ensure the continuity of program and project implementation from the previous obligation-based to the cash budgeting system.

96. **While the Philippine economy continues to be resilient, authorities remain vigilant against downside risks to growth.** As a response, the government will continue to employ strategies that would sustain growth momentum and support the country's development goals over the medium-term[43]. These include legislative reforms, such as the Ease of Doing Business Act, which aim to improve the country's governance and business climate problems. The NG has also intensified its efforts to support farmers through the provision of crop insurance, credit assistance to farmers, and free irrigation. Other strategies to help the Agriculture Sector include diversifying into commodities with high market potential, high value-adding, and ensuring the proper utilization of the Rice Competitiveness Enhancement Fund (RCEF) to enhance the productivity and competitiveness of the rice sector.

    On the other hand, the performance of Industry and Services Sectors will be improved through the full operationalization of the National Single Window/TradeNet System and its integration into the ASEAN Single Window, and leveraging technological advancements to develop the skills of workers. DTI is also committed to strengthen the country's National

[43] Short-term strategies as identified and presented by the NEDA during the DBCC Budget Briefing on the FY 2020 Proposed Budget to the Committee on Appropriations on August 22, 2019, and to the Senate Committee on Finance on August 29, 2019.

Quality Infrastructure Policy to improve quality standards and enhance the competitiveness of Philippine goods and services.[44] This requires harmonization of regulatory processes and increased coordination among oversight agencies such as DTI, DA, DOST, and DOH, among others. Similarly, the Philippine Export Development Plan 2018-2022 was approved by the President on June 26, 2019[45]. It outlines the following strategies to revitalize the export industry as a key contributor to economic growth: i) improving the overall climate for export development; ii) exploiting existing and prospective opportunities from trading arrangements; and iii) designing and developing comprehensive packages to promote select products and services.

97. **The ongoing midterm updating of the Philippine Development Plan (PDP) allows the government to review and refine its policies/strategies to ensure their responsiveness to the country's economic growth prospects and development goals.** While much has been achieved in the last three years of the Administration, the government also remains steadfast in its goal of not only driving the country to become an upper middle-income economy by 2022, but also ensuring that this growth is felt by all sectors in society and would help Filipino citizens achieve a *Matatag, Maginhawa, at Panatag na Buhay*.

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[44] Press Release, DTI. For further reading, check https://www.dti.gov.ph/pab-media/pab-news/12610-strengthening-the-philippine-quality-infrastructure-through-cooperation-within-the-nqi-network.
[45] The Philippine Export Development Plan 2018-2022 was approved via Memorandum Circular No. 62 on June 26, 2019.

ANNEX A. Overall updates on the Social Welfare and Benefits Programs under the TRAIN Law

Unconditional Cash Transfer

The Unconditional Cash Transfer (UCT) Program is intended to help some 10.0 million indigent Filipino households and individuals to cushion the impact of the price adjustments brought about by the tax reform. The 10 million UCT beneficiaries include the 4.4 million *Pantawid Pamilyang Pilipino* Program (4Ps) beneficiaries, 3.0 million senior citizen-beneficiaries of the Social Pension Program; and 2.6 million households from the Department of Social Welfare and Development's (DSWD) *Listahanan* or database of poor households. In 2018, the beneficiaries received a monthly cash grant of P200.00 or P2,400.00 annually. For FYs 2019 and 2020, the grant has been increased to P300.00 per month or P3,600.00 per year.

For 2018, the program was allocated a total of P25.673 billion: P24.488 billion to cover the cash grants (P24 billion) and other bank fees (P488 million), lodged in the Land Bank of the Philippines (LBP) and P1.185 billion for the administrative cost requirements of the DSWD.

As of March 9, 2018, the P24.3 billion requirement of the UCT Program has been fully released by the Department of Budget and Management (DBM) to the LBP as the Program conduit. And as for the distribution of the 2018 cash grants, the DSWD has released a total of P18.211 billion cash grants worth P2,400 to 7,619,730 beneficiaries through the LBP.

There are still around 2.38 million beneficiaries who have not claimed their 2018 cash grants. This is equivalent to around P5.713 billion. Among the reasons cited for the delay were the election ban, the nationwide cleansing of the Social Pension Database, procurement concerns of conduits (i.e. these include other payment channels for distributing the cash grants, such as rural banks, and pawn shops, among others) for payouts in the Geographically Isolated and Disadvantaged Areas (GIDA), and severe weather conditions.

For the 2019 distribution of grants, the DSWD has released a total of P13.256 billion cash grants (P3,600 per beneficiary) to 3,682,283 beneficiaries. There are still 6.317 million beneficiaries who have not yet received their 2019 cash grants (equivalent to P22.744 billion). It is noted that the late passage of the FY 2019 GAA, as well as the election ban have partly delayed the distribution of the cash grants. The disbursed amount covers only beneficiaries under the Conditional Cash Transfer (CCT) Program who have ATM cards.

For the distribution of both the 2018 and 2019 cash grants, the DSWD expects some acceleration in disbursements in the remaining months of FY 2019 as procurement activities for conduits end and payouts to the remaining beneficiaries shall be made including those who have not claimed the 2018 cash grants.

Status of Fund Releases to the Unconditional Cash Transfer Program, as of August 14, 2019
(In million pesos)

Particulars	GAA	Allotment	NCA*	Disbursements	% of NCA
2018	25,673	25,673	25,613		
Department of Social Welfare and Development (administrative costs)	1,185	1,185	1,125	374	33.24
Land Bank of the Philippines (cash grants to cover 10 million benes)	24,488	24,488	24,488	18,211	74.37
2019	37,080	19,568	19,514		
Department of Social Welfare and Development (administrative costs)	1,080	1,080	1,026	16	1.57
Land Bank of the Philippines (cash grants to cover 10 million benes)	36,000	18,488	18,488	13,256	71.70
*2020***	37,176				
Department of Social Welfare and Development (administrative costs)	688				
Land Bank of the Philippines (cash grants to cover 10 million benes)	36,488				

* FY 2018 and 2019 NCA releases to DSWD are net of tax remittance advice (TRA)[46].
* Disbursement figures were obtained from the DSWD's program status report.
** GAA figures for FY 2020 are based on values in the FY 2020 National Expenditure Program.

[46] A serially-numbered document that should be used by the NGAs in the remittance of withheld taxes on funds coming from DBM. This form is being attached to every withholding tax return filed as payment for taxes withheld. This shall be the basis for the BIR and the Bureau of Treasury (BTr) to record the tax collection in their respective books of accounts.

National ID System

The objective of the National ID System (NIDS) is to assume the functions of a social benefits card, and eventually serve as a government-issued ID for all Filipinos. For FYs 2018 and 2019, the Philippine Statistics Authority (PSA) has been allotted P2 billion and P2.037 billion, respectively.

However, budget utilization for the program has been very low since R.A. No. 11055[47], the law mandating for the NIDS, had just been signed in August while its Implementing Rules and Regulations (IRR) was only approved in October 2018. Similarly, the Philippine Identification System (PhilSys) Registry Office had just been established recently. As a result, the agency was constrained to temporarily put on hold its implementation timeline. Meanwhile, the utilization of their FY 2019 budget was met with delays as the agency had to utilize first their 2018 allocation. Likewise, the procurement activities for the NIDS, which are expected to have substantial effects on the agency's budget utilization rate are still scheduled in the 2nd Semester of 2019.

As of June 2019, the roll out of the National ID is on schedule with mass registration expected next year, following the approval of the PhilSys Implementation Plan. The Plan details the four phases of the project's implementation: 1) procurement of technology to issuing actual IDs; 2) development and full operationalization of core technology infrastructure, development of a mass registration ecosystem, use case development, and registration of pre-registered persons; 3) mass registration; and 4) issuing of PhilSys Numbers, or PSNs, to newborns.

Pantawid Pasada Program

The *Pantawid Pasada* Program of the Department of Transportation (DOTr) aims to cushion the impact of higher fuel prices on Public Utility Jeepney (PUJ) franchise holders brought about by the additional excise taxes on fuel, and subsequently temper the increase in transport fares. This program is aligned with the transition period of the Public Utility Vehicle (PUV) Modernization Program.

[47] R.A. No. 11055, entitled "An Act Establishing the Philippine Identification System" was approved on August 6, 2018.

The program provides a monthly fuel subsidy of P833.33 per unit to qualified franchise holders, or around P5,000.00 from July to December 2018. The monthly subsidy will be increased this year to P1,709.57 per unit, or around P20,515.00 for the whole year of 2019. These subsidies shall also cover and absorb the potential loss of income from providing fare discounts to the riding public.

The program was launched on July 12, 2018 for the initial distribution of *Pantawid Pasada* cards to some 500 franchise holders and was rolled out in the succeeding days to cover some 7,599 additional franchise holders.

Status of Fund Releases to the *Pantawid Pasada* Program, as of August 14, 2019
(In million pesos)

Particulars	GAA	Allotment	NCA*	Disbursements	% of NCA
2018					
Department of Transportation	977	977	977		
Administrative Cost	78	78	78	57	73.63
Fuel Subsidy (for 170,518 beneficiaries)	899	899	899	557	61.91
2019					
Department of Transportation	*3,856*	*0*	*0*	*0*	*N/A*

* GAA entries for both 2018 and 2019 are lodged under the Unprogrammed Appropriations – Support for Infrastructure Projects and Social Programs, which depend upon certification of excess revenues by the BTr.

For 2018, the program was allocated a total of P977 million: (a) P899 million to cover the fuel subsidy and (b) P78 million for the administrative cost requirements of the DOTr. As of August 14, 2019, the DOTr has released a total of P557.0 million worth of fuel subsidies to 111,315 beneficiaries out of the 170,518 identified beneficiaries.

The number of qualified PUJ franchise holders has changed over the course of program implementation as the source list underwent cleansing. The DOTr and Land Transportation Franchising and Regulatory Board (LTFRB) noted the following problems in the LTFRB database, which caused the volatilities, and ultimately hampered the distribution of cards:

i. Franchise holders being out of the country;

ii. Unauthorized transfers of franchises which are not reflected in the database;
iii. Franchise holders being already deceased, sick, or incapacitated; and
iv. Franchise holders awaiting decision on a case (e.g. franchise application/transfer/change of party)

To address the issues concerning the unavailability of franchise holders to receive their *Pantawid Pasada* cards, representatives by virtue of Special Power of Attorney (SPA) were allowed to receive the cards starting November 20, 2018 as agreed upon by DOTr, LTFRB and LBP. Other reasons for delays in program implementation also include the limitation of LBP personnel and bank availability dates due to existing 4Ps/UCT payout schedule, especially in the provinces and during Saturdays.

For 2019, the DOTr has submitted its request for the release of P2.372 billion program requirement of the *Pantawid Pasada* Program. However, said request was officially returned to the DOTr for submission of additional pertinent documentary requirements. To date, the DBM has yet to receive the revised request.

NFA Discounted Rice

The National Food Authority (NFA) shall prioritize selling its discounted rice to the 2.6 million UCT beneficiaries under the *Listahanan* and senior pensioners at the existing retail price of P27.00/kg for 20 kilos per month. This represents a substantial 39.0 percent subsidy which is more than what the TRAIN Law requires given the comparable prevailing commercial price of rice at P42.24/kg.

NFA will intensify its rice distribution efforts to the accredited retailers inside markets and outside markets nationwide, giving priority to depressed areas where there are significant numbers of UCT beneficiaries based on the DSWD database.

On August 29, 2018, the Implementing Guidelines on NFA's TRAIN Rice Distribution Program (TrRDP) was signed by NFA Administrator Jason L.Y. Aquino. However, due to constraints in implementing the program relating to the data privacy requirements of the list of UCT beneficiaries, the *Tagpuan* System was employed in its stead. The *Tagpuan* System, is a distribution strategy which ensures that cheap, good quality NFA rice will be available to the intended poor beneficiaries, such as the marginalized sector (e.g. indigenous peoples, resettlement areas of informal settlers, and communities of low wage agricultural farm workers).

During the Inter-Agency Committee (IAC) meeting last January 16, 2019, NFA noted that the NFA rice is already discounted (P27.00/kg) compared to prevailing rates at P39.00/kg which translates to around 30.7 percent savings or P600.00/bag, the focus will be on prioritizing distribution to qualified beneficiaries, instead of new or additional discounts.

As of June 6, 2019, the NFA has served a total of 2,783,022 beneficiaries under its operationalized *Tagpuan* System. No additional funds were requested for this program, and no TRAIN incremental revenues are attributed to the implementation of this program.

Among the program's challenges include difficulties in identification of beneficiaries due to the nature of transactions (i.e. long queues and short transactions) as well looming structural changes within the NFA due to the passage of R.A. No. 11203, otherwise known as "An Act Liberalizing the Importation, Exportation and Trading of Rice, Lifting for the Purpose the Quantitative Import Restriction on Rice, and for Other Purposes". In the interim, NFA has expressed their commitment to continue their mandate until further notice.

Free Skills Trainings under TESDA

TESDA gives priority to the minimum wage earners, the unemployed, and UCT beneficiaries in the provision of free skills trainings, assessments and other benefits, as applicable, under its current scholarship programs, namely: Training for Work Scholarship Program (TWSP), Special Training for Employment Program (STEP), Private Education Student Financial Assistance (PESFA), and those under the Universal Access to Quality Tertiary Education (UAQTE).