Republic of the Philippines
Development Budget Coordination Committee
Malacañang, Manila

Mid-Year Report on the 2018 National Budget[1]

September 28, 2018

I. Introduction

The year 2018 sustains the groundwork for the Duterte Administration's development agenda, and will continue to build on what has been achieved in previous years to further solidify the foundation of a *Matatag, Maginhawa, at Panatag na Buhay* or the country's long-term vision by 2040. This year is also expected to be a transition period before the full implementation of structural reforms and key policies by 2019. These reforms seek to improve public financial management and the bureaucracy as a whole, with the ultimate goals of accelerating the delivery of government services, expanding the economy, and promoting sustainable inclusive growth.

Two landmark reforms in the public sector were the Tax Reform for Acceleration and Inclusion (TRAIN) Act and the Budget Modernization Bill (BMB)[2]. The TRAIN Law, which was enacted on December 19, 2017 and took effect on January 1 this year, provided the much needed fiscal space to fund the country's priority infrastructure and social services expenditures. The BMB, meanwhile, aims to modernize the country's PFM systems and make government spending fast, effective and efficient by institutionalizing the one-year validity of appropriations and the annual cash-based budget. Although the Bill has been approved in the Lower House and sponsored in the Senate, the government continues to shepherd its passage so that by the end of the third regular session of the 17th Congress, it will be enacted into law.

[1] Updated on November 22, 2018 to reflect the actual BOP performance discussed under the macroeconomic portion of the report on page 10.
[2] Formerly *Budget Reform Bill*. The short name of the proposed law was changed to "Budget Modernization Act" to highlight its main goal of modernizing the country's budget process and PFM systems.

In terms of the economy, the country's macroeconomic fundamentals continued to be sound. Economic growth in the first semester of 6.3 percent was still solid albeit below the government's target. The country, nonetheless, remains to be one of the fastest growing economies in the region. Despite the downside risks from inflationary pressures and less benign external environment, growth prospects remain positive on account of strong household consumption, expansion of businesses, investment opportunities, and higher government spending.

The fiscal performance of the government is also notable. Revenue collections were significantly higher year-on-year and above the targets due to the TRAIN Law and improved tax administration. Likewise, disbursements were faster this year, exceeding the program and reversing the underspending in previous years owing to policy reforms and improved budget execution.

The Mid-Year Report for Fiscal Year (FY) 2018 reviews the country's macroeconomic and fiscal performance during the first half of 2018 and contains the following discussions:

- Overall budgetary principles and expenditure priorities of the 2018 National Budget;
- First semester performance relative to macroeconomic, revenue, expenditure, financing, and debt targets as originally adopted in the Budget; and
- Full year macroeconomic, revenue and expenditure outlook based on the recent macro-fiscal developments

II. FY 2018 National Government Budget

The 2018 National Budget was signed into law on December 19, 2017 after having gone through rigorous budget deliberations in both houses of Congress from early August up to November last year. The National Budget for FY 2018 amounts to P3,767.0 billion, P417.0 billion or 12.4 percent higher than the P3,350.0 billion obligation budget for 2017. This is equivalent to 21.4 percent of the projected nominal GDP for the year.

Key Budget Principles

The 2018 National Budget was crafted with credible and disciplined fiscal policy in mind. While fiscal expansion supports the government's expenditure priorities, the deficit target for the year is maintained at 3.0 percent of GDP. This strategy is complemented by raising revenues through tax policy and administration reforms, reducing pressure on government borrowings and thereby ensuring long-term fiscal sustainability. Also, the share of interest payments and net lending (i.e., advances to government corporations to pay off their debt) to the budget is reduced to just 9.8 percent from 19.6 percent in the 2012 budget and 10.5 percent from the previous year's budget. With this, debt is expected to continue with its downward trajectory from a high of 51.5 percent of GDP in 2012 to about 42.1 percent of GDP this 2018.

Given that the resources at the hands of the government are limited, the budget must be disciplined and put into good use. The 2018 Budget was, thus, designed to continuously improve budget execution and address underspending. Through the one-year validity of appropriations, this budget seeks to speed up the utilization of funds within the year, allow the timely implementation of programs and projects, and fast-track the delivery of goods and services to the public. Ultimately, this budget is a transition budget in preparation for the cash-based appropriations in 2019.

The Budget for 2018 reflects the Administration's priorities and policies. It placed emphasis on improving people's lives and welfare by accelerating strategic infrastructure and ensuring sustainable development through the Build Build Build Program and expanded social services programs. It also shifted the basis of costing the budget, from the previous input-basis to the actual delivery of outputs and attainment of outcomes.

Likewise, the budget strengthens transparency, participation and accountability by actively engaging the public in the budget process and governance through reforms and platforms such as the *Freedom of Information, Open Government Partnership* and transparency initiatives under the *Open Budget Index*.

Finally, the budget continues to enhance partnership with Local Governments to ensure sustainable development by providing additional financial assistance to fund their identified local poverty alleviation programs and infrastructure projects through the *Local Government Support Fund.*

Budget Priorities

Social services continued to corner the largest share of the budget at 37.8 percent or P1,425.7 billion to make quality social protection programs and public services such as education, health, housing and employment more accessible. On the other hand, the share of economic services was expanded to 30.6 percent or P1,153.6 billion from the 27.5 percent or P922.9 billion budget in 2017, consistent with the Administration's massive infrastructure program to foster a faster broad-based economic growth.

The government intends to invest heavily in growth-enhancing infrastructure projects to increase access to remote regions, provide efficient logistic solutions and ensure seamless intermodal passenger transport. Towards this end, some P1,094.2 billion or 6.2 percent of GDP was earmarked for the Build Build Build Program. Under this, the Department of Public Works and Highways (DPWH) and the Department of Transportation (DOTr) were provided with an infrastructure budget[3] of P621.9 billion and P45.9 billion, respectively, for the implementation of major road and transport infrastructures.

The government will, likewise, continue to maximize the country's demographic window, by pouring its resources to the Social Services Sector. Education was given primary importance with P704.1 billion for 2018, an increase of 7.3 percent from the 2017 budget of P656.3 billion. Of this, P580.6 billion is allocated to the Department of Education (DepEd) aimed at providing high quality basic education for Filipino students from Kindergarten to Senior High School. The Commission on Higher Education (CHED) was provided with P50.5 billion, a significant increase from its 2017 budget of P19.6 billion due to the implementation of Republic Act No. 10931 or the Universal Access to Quality Tertiary Education Act. This is on top of the P65.2 billion provision for State Universities and Colleges (SUCs), largely to cover the requirements of its teaching personnel, as well as its operating expenditures. The budget of the Technical Education and Skills Development Authority (TESDA) was increased by 13.0 percent from P6.8 billion in 2017 to P7.7 billion in 2018 to help

[3] Pertains only to the infrastructure outlay portion based on Table B3 of the 2019 Budget of Expenditures and Sources of Financing. The total budget of the DPWH and DOTr for 2018 amounts to P650.9 billion and P68.1 billion, respectively.

improve the skills of Filipino workers towards permanent and better employment opportunities.

The Health Sector's budget was increased by 13.3 percent from P158.3 billion in 2017 to P179.4 billion this 2018. This will enable the government ensure that all its citizens, especially the poor, have access to quality health services by providing better health facilities and more medical practitioners. Around P30.3 billion was allotted for the Health Facilities Enhancement Program (HFEP) of the Department of Health (DOH) for the construction of 1,291 new Barangay Health Stations and 86 new Rural Health Units (RHUs), completion and equipping of 508 RHUs, Urban Health Center and City Health Offices, as well as the improvement of the facilities of 461 hospitals and polyclinics. Some P10.0 billion was also provided for the Human Resources for Health Deployment Program to hire additional 446 doctors, 20,527 nurses, 3,108 midwives, and 324 dentists. On top of this, the National Health Insurance Program was given P60.6 billion for affordable and accessible health insurance of 15.4 million poor families, 5.4 million senior citizens, 25,514 families under the *Payapa at Masaganang Pamayanan Program* and 22,709 beneficiaries under the *Bangsamoro Program*.

The FY 2018 Budget also catered to the needs of the marginalized and vulnerable sectors. The Conditional Cash Transfer (CCT) Program of the Department of Social Welfare and Development (DSWD) was provided with P89.4 billion to cover the educational grants, livelihood assistance, and health services to 4.4 million poor families under the regular CCT Program, as well as some 235,289 beneficiaries under the Modified CCT Program[4].

To address the challenge of food security, the FY 2018 Budget included support for major productivity-enhancing programs. The Department of Agriculture (DA) was provided with a higher budget of P55.7 billion to expand its agricultural commodity programs such as rice and corn, high value crops, fisheries and livestock. This will be supported by the P41.7 billion budget of the National Irrigation Administration (NIA) which includes the P2.0 billion for the free irrigation services of small farmers. The budget of the DA also included some P11.7 billion for the construction of 700 kilometers of farm-to-market roads, P4.3 billion for mechanization and post-harvest facilities, and P2.8 billion

[4] Covers families in need of special protection such as street families, itinerant indigenous families including those displaced by natural and man-made disasters, persons with disability (PWD), child laborers, children in conflict with the law, and families with members having terminal disease and victims of human trafficking.

for various research and development initiatives in the Agriculture, Forestry, and Fisheries sector.

Ensuring security, public order and safety remains to be one of the essential pillars in reaching the country's Philippine Development Plan (PDP) 2017-2022 targets. In support of this objective, the Department of National Defense (DND) was allocated with P150.0 billion. Of this amount, P25.0 billion was earmarked for the *Revised Armed Forces of the Philippines Modernization Program* for the acquisition of various defense facilities, machineries and equipment. Meanwhile, the Philippine National Police (PNP) was provided with P132.3 billion to strengthen its crime prevention, suppression and investigation efforts. This will help the government attain its goal of reducing the national crime rate by 5.0 percent this 2018. Similarly, the *National 911 Program* of the Department of the Interior and Local Government (DILG) was funded with P22.4 million to hire qualified and competent professionals that will improve the hotline's quick response capability.

The topographic characteristics of the country makes it prone to a multitude of natural hazards aggravated by climate change. This calls for stronger response by the government towards environmental preservation, and disaster preparedness and mitigation. The Department of Environment and Natural Resources (DENR) has a budget of P25.7 billion. Of this amount, P5.2 billion was intended for the National Greening Program to cover some 124,220 hectares of forest land to be planted. Some P97.0 billion was also tucked in under the DPWH budget for the construction of flood control facilities and drainage systems. The National Disaster Risk Reduction and Management Fund (NDRRMF) was allotted with P19.6 billion to further strengthen the capacity of the government to institute disaster resilience measures in communities and enhance its response capabilities. In addition, P7.6 billion was lodged under the budget of key agencies as Quick Response Fund (QRF) to immediately assist the people in areas stricken by calamities and crises.

III. First Semester Macroeconomic and Fiscal Performance

Macroeconomic Environment

Growth Targets

The Philippine economy registered a respectable growth as real GDP expanded by 6.3 percent in the first semester of 2018, albeit below the low-end of the government's full year GDP growth target of 7.0 to 8.0 percent for the year. This is also slightly lower than the 6.6 percent recorded for the same period in the previous year. Nevertheless, the Philippines remains as one of the best performing economies in the region in the first half of 2018 after Vietnam (7.1 percent) and China (6.8 percent), and ahead of Indonesia (5.2 percent), Malaysia (4.9 percent) and Thailand (4.8 percent).

Table 1. Mid-Year 2018 Economic Performance vis-à-vis Assumptions

Particulars	FY 2017 Actual	2018	
		FY 2018 BESF Initial Projections	Actual (January-June)
Nominal GDP (in millions)			
Low-end		17,456,070	
High-end	15,806,359	17,775,498	8,238,109
Real GDP Growth Rate	6.7	7.0 - 8.0	6.3

Sources: PSA and NEDA

On the expenditure side, domestic demand (9.2 percent) remained robust, bolstered primarily by capital formation (16.4 percent) and household consumption (5.7 percent). Growth in capital formation was brought about by hefty increase in durable equipment (17.1 percent), particularly in road vehicles (12.2 percent) and telecommunications and sound recording/reproducing equipment (34.1 percent). Construction sustained its double-digit growth for the fifth consecutive quarter, supported by expansion in both public (22.1 percent in the first half of 2018) and private (7.3 percent) segments. Strong government spending (12.6 percent) was driven by increased social spending while household consumption continues to be robust, reflecting optimistic consumer outlook, generally improved labor market conditions and sustained inflows of cash remittances (4.2 percent)[5]. Nonetheless, slight deceleration was observed, partly due to inflation given increasing international oil prices, tight supply of rice and agricultural products and higher excise taxes.

[5] Cumulative growth rate from January to May 2018 compared to same period in 2017. http://bsp.gov.ph/publications/media.asp?id=4745&yr=2018; http://bsp.gov.ph/statistics/keystat/ofw2.htm

Net exports slowed down on account of the moderation in the growth on merchandise exports (8.9 percent) relative to the previous semesters, coupled with faster growth of imports (14.6 percent). Deceleration was recorded in the exports of goods particularly in agricultural products (-14.4 percent) and fishery products (32.9 percent), both of which were affected by unfavorable weather conditions. On the other hand, the slowdown in the imports of goods (15.8 percent) was counterbalanced by the higher growth in imports of services (8.6 percent).

Table 2. Growth of GDP, by Component, January-June 2018

Particulars	Growth Rate (%)		Contribution to Growth (in ppt)	
	S1 2017	S1 2018	S1 2017	S1 2018
Gross Domestic Product	**6.6**	**6.3**	6.6	6.3
By Expenditure				
1. Household Final Consumption	5.9	5.7	4.0	3.8
2. Government Final Consumption	4.3	12.6	0.5	1.4
3. Capital Formation	9.5	16.4	2.6	4.6
A. Fixed Capital	10.4	14.8	2.8	4.2
1. Construction	7.5	11.6	0.7	1.1
Public	*9.3*	*22.1*	*0.3*	*0.6*
Private	*6.8*	*7.3*	*0.5*	*0.5*
2. Durable Equipment	11.0	17.1	1.7	2.8
4. Exports	19.5	9.8	10.0	5.7
5. Less: Imports	18.6	14.6	11.0	9.5
By Origin				
1. Agriculture, Hunting, Forestry & Fishing	5.6	0.7	0.5	0.1
2. Industry	6.9	7.0	2.3	2.4
3. Services	6.5	6.7	3.8	3.8

Source: PSA

On the supply side, the industry sector (7.0 percent) remained firm as the government's Build Build Build Program continued to support the expansion in construction (11.5 percent), which largely offset the decline in mining and quarrying (-4.2 percent). The services sector (6.7 percent) likewise posted higher growth, mainly due to gains in transport, storage and communication (6.4 percent); and public administration and defense, compulsory social security (14.2 percent). Meanwhile, growth of agriculture and fishery (0.7 percent) was dampened by the lower production of major crops such as corn and *palay*, exacerbated by weather disturbances that hit the country during the reference period.

Macroeconomic Assumptions

Consumer prices increased in the first half of 2018, as headline inflation averaged 4.3 percent from 2.9 percent for the same period last year. The higher first semester 2018 inflation outturn was attributed mainly to temporary supply-side pressures, related to rising global oil prices, higher excise taxes, and weather-related disruptions that affected food prices. The average headline inflation is slightly above the government target range of 3.0 percent ± 1.0 percentage point (ppt) for the year.

Moreover, the average 364-day Treasury bill (T-bill) rate in the primary market settled at 3.9 percent in the first six months of 2018, near the high-end of the Development Budget Coordination Committee (DBCC) assumption range of 2.5 – 4.0 percent for 2018. This is also higher than the 3.2 percent average T-bill rate recorded in the same period last year. In the secondary market, the average T-bill rate was likewise higher at 4.5 percent in the first six months of 2018 compared to the same period in 2017. The policy rate hikes by the *Bangko Sentral ng Pilipinas* (BSP) in May and June 2018, and by the US Fed in March and June 2018 contributed to higher domestic interest rates. Moreover, the upward adjustments in the target federal funds rate led to higher foreign interest rate. The 180-day London Interbank Offered Rate (LIBOR) averaged 2.3 percent in January – June 2018. This is near the high-end of the DBCC assumption range of 1.0 – 2.5 percent for 2018 and higher than the 1.4-percent average in the first half of 2017.

Meanwhile, the peso-dollar exchange rate depreciated along with other currencies in the region given the generalized appreciation of the US dollar. In January – June 2018, the peso-dollar exchange rate averaged P51.95/US$1, weaker than the high-end of the DBCC assumption range of P48.00 – 51.00/US$1 for 2018 and the P49.92/US$1 average for the same period in 2017. The weakening of the peso was attributed to both fundamental and non-fundamental factors. The fundamental factors included (i) higher demand for imports of capital goods, raw materials and intermediate products; and (ii) dollar debt repayments, prepayments, and outward investments. The non-fundamental factors reflected various market sentiments over domestic and external developments that added more pressure on the Philippine peso. Nevertheless, the peso remains flexible and competitive supporting the economy’s ability to adapt to external shocks.

In the global oil market, crude oil prices increased in the first semester of 2018, driven mainly by geopolitical tensions between the United States and selected key oil producers namely, Iran and Venezuela. In May 2018, the US announced its withdrawal from the Joint Comprehensive Plan of Action (JCPOA) and sanctioned companies doing business with Iran. At the same time, declining oil production from Venezuela also contributed to the price increase. Dubai crude oil price averaged US$67.99 per barrel in January – June 2018 from US$51.44 per barrel for the same period in 2017.

In the first semester of 2018[6], exports of goods based on BOP data declined by 1.6 percent to US$25.3 billion from US$25.7 billion in the first six months of last year. Contributing largely to the decrease in exports goods were lower shipments of coconut products (22.9 percent), and fruits and vegetables (16.4 percent). This development more than offset the moderate growth in other commodity groups, particularly mineral products and manufactured goods. Under manufactured goods, which comprised about 79 percent of total goods exports, among those which increased significantly were shipments of non-consigned electronics, machinery and transport equipment, as well as travel goods and handbags.

Meanwhile, imports of goods rose to US$48.7 billion in the first six months of 2018 from US$44 billion in the same period in 2017. The 10.7 percent growth was attributed mainly to higher imports of raw materials and intermediate goods, reflecting the robust expansion in domestic economic activity. The 22.2 percent increase in imports of raw materials and intermediate goods, which totaled US$18.5 billion in the first half of the year, due largely to increased purchases of materials and accessories for the manufacture of non-consigned electronic products (133.8 percent) along with imports of manufactured goods

[6] Previously first quarter of 2018. Updated to first semester of 2018 following the release of the 2018 actual BOP performance on September 14, 2018.

(20.2 percent). Imports of mineral fuels and lubricant rose by 19.1 percent to US$6 billion due mainly to higher importation of petroleum crude (44.4 percent). Increased imports of consumer goods and capital goods were also registered at 10.1 percent and 2.7 percent, respectively.

Table 3. Selected Macroeconomic Indicators, 2018

Particulars	2018 DBCC Assumptions		Actual
	Original[a/]	Revised[b/]	(Jan. - Jun. 2018)
Inflation (%)	2.0 – 4.0	4.0 – 4.5	4.3
364-day T-bill rate (%)[c/]	2.5 – 4.0	3.0 – 4.5	3.9
Foreign exchange rate (₱/US$1)	48.00 – 51.00	50.00 – 53.00	51.95
180-day LIBOR (%)	1.0 – 2.5	2.0 – 3.0	2.3
Dubai crude oil price (US$/barrel)	45.00 – 60.00	55.00 – 70.00	67.99
Goods exports growth (%)[d/]	7.0	9.0	7.0
Goods imports growth (%)[d/]	10.0	10.0	7.1

[a/] Based on FY 2018 BESF

[b/] Approved by the DBCC on July 2, 2018

[c/] Based on primary market rates

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

Note: Actual data are averages for the period January – June 2018 except for goods exports and imports where the latest available data is for the period January – March 2018.

Sources: DBM, PSA, BTr, and BSP

FY 2018 Full Year Fiscal Program

The country's strong macroeconomic fundamentals continue to support an expansionary fiscal policy with the deficit target maintained at 3.0 percent of GDP for 2018. This will sustain the accelerated spending in public infrastructure and social services to further boost economic growth from 7.0 to 8.0 percent over the medium-term, and lower the poverty incidence to 14.0 percent by 2022 from 21.6 percent in 2015.

The DBCC-approved fiscal program for 2018 is higher when compared to the original projections published in the FY 2018 Budget of Expenditures and Sources of Financing (BESF) in July 2017, as shown in the next page.

Table 4. Fiscal Aggregates, 2018 Projection vs. Program (In billions)

Particulars	2018		Variance	
	Projection[a/]	Program[b/]	Amt	%
Revenues	2,840.5	2,846.3	5.7	*0.2*
Tax Revenues	2,671.7	2,677.4	5.7	*0.2*
Non-Tax	166.8	166.8	-	-
Privatization	2.0	2.0	-	-
Disbursements	3,364.1	3,370.0	5.9	*0.2*
Current Operating Expenditures	2,339.6	2,415.8	76.2	*3.3*
Capital Outlays	1,007.7	940.4	(67.3)	*(6.7)*
Net Lending	16.8	13.8	(3.0)	*(18.0)*
Surplus/(Deficit)	(523.6)	(523.7)	(0.1)	*0.0*

Notes:

Total Obligation Program	*3,767.00*	*3,767.00*

[a/] *FY 2018 BESF Level*

[b/] *FY 2019 BESF Level*

Sources: DBM and DOF

Program revenues increased by P5.7 billion or 0.2 percent from the original projection of P2,840.5 billion in consideration of the full year 2017 actual revenue outturns, as well as the increase in the expected proceeds from the TRAIN Law due to the Presidential Veto of some of its provisions.

Meanwhile, the disbursement program took account of the obligation budget for the year, at P3,767.0 billion, and the Monthly Disbursement Program (MDP) submissions of departments/agencies which were subsequently calibrated in consideration of their spending capacities. The total disbursements increased by P5.9 billion or 0.2 percent reflective of the increase in total revenues while the deficit target maintained at 3.0 percent of GDP.

Current operating expenditures increased by P76.2 billion largely due to the provision for the higher base pay of the military and uniformed personnel (MUP) pursuant to Joint Resolution No.1 s. 2018[7], the requirements of the Free Tertiary Education Program, and the Cash Transfer Project under the TRAIN

[7] 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*

Law. On the other hand, capital outlays were reduced by P67.3 billion mainly due to the lower projected cash requirements for National Government (NG) infrastructure projects, and as a result of the higher personnel services (PS) expenditures (increase in the base pay of MUP) and requirements of banner social programs and TRAIN Social Mitigating Measures.

Table 5. National Government Revenues, 2017 Actual vs 2018 Program
(In billions)

Particulars	Full Year		Increase/(Decrease)	
	2017 Actual	2018 Program	Amt	%
Tax Revenues	2,250.7	2,677.4	426.8	*19.0*
Bureau of Internal Revenue	1,772.3	2,073.8	301.4	*17.0*
Bureau of Customs	458.2	581.3	123.1	*26.9*
Others	20.2	22.4	2.2	*11.0*
Non-Tax Revenues	221.6	166.8	(54.8)	*(24.7)*
Bureau of the Treasury	99.9	55.8	(44.1)	*(44.2)*
Fees and Charges	40.8	47.1	6.3	*15.5*
Others	80.9	64.0	(17.0)	*(20.9)*
Privatization	0.8	2.0	1.2	*141.0*
Total Revenues	**2,473.1**	**2,846.3**	**373.1**	*15.1*

Source: DOF

Revenues are projected to reach P2,846.3 billion in 2018, an increase of around P373 billion or 15.1 percent from the P2,473.1 billion actual collections in 2017. The substantial increase takes into account the expected additional revenues from the implementation of the TRAIN Law.

Tax revenue collections of the BIR make up 73.0 percent of the full year revenue program, and are expected to increase by P301.4 billion or 17.0 percent on account of the substantial receipts from VAT collections, as well as excise taxes from oil, automobile and sugar-sweetened beverages. Meanwhile, the Bureau of Customs (BOC) collections are projected to grow by P123.1 billion or almost 27.0 percent from last year’s actual outturn.

Table 6. National Government Disbursements, 2017 Actual vs 2018 Program
(In billions)

Particulars	Full Year		Increase/(Decrease)	
	2017 Actual	2018 Program	Amt	%
Current Operating Expenditures	2,113.9	2,415.8	301.8	*14.3*
Personnel Services	808.4	961.9	153.5	*19.0*
MOOE	465.4	517.5	52.1	*11.2*
Subsidy	131.1	137.7	6.6	*5.0*
Allotment to LGUs	390.2	425.2	35.1	*9.0*
Interest Payments	310.5	354.0	43.5	*14.0*
Tax Expenditures	8.3	19.5	11.2	*134.1*
Capital Outlays	714.1	940.4	226.3	*31.7*
Infrastructure and Other Capital Outlays	568.8	775.4	206.6	*36.3*
o.w. NG Infrastructure	501.2	699.3	198.1	*39.5*
Capital Transfers to LGUs	140.0	157.5	17.5	*12.5*
Equity	5.4	7.6	2.2	*41.3*
Net Lending	(4.2)	13.8	18.0	*(425.2)*
Total Disbursements	**2,823.8**	**3,370.0**	**546.2**	*19.3*

Source: DBM

Disbursements are targeted to reach P3,370.0 billion, an increase of 19.3 percent from the previous year's actual. As earlier discussed, the disbursement program is based on the MDP submissions of departments/agencies, which were calibrated to take into account their spending capacities.

Consistent with the Administration's commitment to fill the gaps in public infrastructure through its ambitious Build Build Build Program, NG infrastructure spending is targeted to reach P699.3 billion in 2018, up by almost 40.0 percent. PS are also expected to grow by 19.0 percent on account of the higher base pay of the military and uniformed personnel pursuant to Joint Resolution No. 1 s. 2018, and the implementation of the third tranche of Executive Order No. 201 s. 2016[8].

[8] 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*

Maintenance expenditures are projected to reach P517.5 billion, up by 11.2 percent from the actual spending level in 2017. The growth is mainly attributed to the implementation of the Universal Access to Quality Tertiary Education by the CHED and higher budget for the K-12 Program of the DepEd and the Conditional Cash Transfer Program of the DSWD.

The quarterly distribution of the approved fiscal program is shown in Table 7 below:

Table 7. 2018 Quarterly Fiscal Program (In billions)

PARTICULARS	Quarterly Distribution				Full Year
	Q1	Q2	Q3	Q4	
REVENUES	536.7	768.1	725.7	815.7	2,846.3
% distribution	*18.9%*	*27.0%*	*25.5%*	*28.7%*	*100.0%*
DISBURSEMENTS	755.8	813.3	858.1	942.8	3,370.0
% distribution	*22.4%*	*24.1%*	*25.5%*	*28.0%*	*100.0%*
SURPLUS/DEFICIT	(219.1)	(45.3)	(132.3)	(127.0)	(523.7)
% distribution	*41.8%*	*8.6%*	*25.3%*	*24.3%*	*100.0%*

Sources: DBM and DOF

Quarterly revenue collections are phased at 18.9 percent, 27.0 percent, 25.5 percent and 28.7 percent. The distribution slightly resembles the trends in previous years, peaking in the second and fourth quarters.

On the other hand, the quarterly distribution of disbursements is backloaded, with 53.4 percent programmed in the second semester. The distribution is consistent with the seasonality of expenditures. PS peak in the second and fourth quarters coinciding with the schedule of release of the mid-year bonus and year-end bonus and cash gift for government employees. Maintenance expenditures are also highest in the second and fourth quarters where operating requirements of education sector agencies are programmed in line with the preparation for opening of classes. The bulk of the cash requirements for the Pantawid Pamilyang Pilipino Program (4Ps) and the Sustainable Livelihood Program (SLP) of the DSWD are also programmed in the second and fourth quarters due to scheduled payout of grants. Capital expenditures are concentrated in the last quarter of the year as payments for completed infrastructure projects become due and demandable. Majority of the capital outlay projects under the DND-AFP Modernization Program and the DILG-PNP Capability Enhancement Program are lodged in the fourth quarter considering that the approval and procurement are done in the early parts of the year.

FY 2018 First Semester Fiscal Performance

Revenue Performance

For the first semester of 2018, revenue collections reached P1,410.5 billion, registering a 19.9 percent growth year-on-year and surpassing the target by 8.1 percent.

Tax revenues grew at a rate of 17.4 percent, led by the growth of BOC collections (32.9 percent) and the increase in BIR collections (13.7 percent). Compared to the growth in collections in the first half of 2017, the growth in BIR and BOC improved by 5.5 percent and 22.5 percent, respectively. The TRAIN Law, which was implemented this year, contributed P33.7 billion in additional revenues during the first semester of 2018, composed of P14.4 billion collections of the BIR and P19.3 billion of the BOC. Meanwhile, other offices recorded a 1.9 percent growth from the same period last year, although missing the target by 9.1 percent.

Non-tax revenues also increased by P34.3 billion or 31.9 percent when compared to the collections in the first half of 2017. Fees and charges grew by 19.1 percent and improved from last year's collection growth of 4.2 percent. Total income collected by the BTr surged by 25.5 percent year-on-year due to higher income from NG deposits and Bond Sinking Fund (BSF)/Securities Stabilization Fund (SSF) investments, guarantee fees, as well as NG share from PAGCOR and dividend remittances. The BTr already exceeded its full year target by 110.1 percent during the first six months of 2018 as a result of higher dividend collections. Collections from other non-tax offices grew by 48.5 percent and surpassed the program by 74.4 percent.

Privatization proceeds amounted to P14.4 billion, increasing significantly by P14.1 billion (5,629.5 percent) mainly due to the one-off transfer of P13.5 billion bond proceeds from the United Coconut Planters Bank's (UCPB) Coconut Industry Investment Fund 14 Holding Companies to the Special Account in the General Fund for Coco Levies.

Table 8. National Government Revenue Performance, First Semester 2018
(In billions)

Particulars	2017 Actual	2018		Variance		Increase/(Decrease)	
		Program	Actual	Amt	%	Amt	%
Tax Revenues	1,068.9	1,220.9	1,254.7	33.8	*2.8*	185.8	*17.4*
BIR	848.0	938.7	964.5	25.8	*2.7*	116.5	*13.7*
BOC	210.3	270.3	279.4	9.1	*3.4*	69.1	*32.9*
Other Offices	10.6	11.9	10.8	(1.1)	*(9.0)*	0.2	*2.0*
Non-Tax Revenues	107.2	83.9	141.4	57.5	*68.6*	34.2	*31.9*
Fees and Charges	19.1	22.3	22.8	0.5	*2.1*	3.7	*19.1*
Bureau of the Treasury	52.7	31.5	66.1	34.7	*110.1*	13.4	*25.5*
Other Non-Tax	35.4	30.1	52.5	22.4	*74.5*	17.1	*48.5*
Privatization	0.3	-	14.4	14.4	---	14.1	*5,629.5*
Total Revenues	**1,176.4**	**1,304.8**	**1,410.5**	**105.7**	***8.1***	**234.2**	***19.9***

Source: DOF

Bureau of Internal Revenue[9]

Total BIR collections reached P964.5 billion for the first six months of 2018, exclusive of tax refund amounting to P4.5 billion. The first semester collection increased by 13.7 percent from P848.0 billion for the same period in 2017. It likewise surpassed the program by 2.7 percent. The improvement was mainly due to the implementation of the TRAIN Law.

Tax administration measures also contributed to the growth of BIR collections during the period. These measures include 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; and updating of zonal value schedules. These measures also enhanced the implementation of BIR's priority programs, namely the Run After Tax Evaders (RATE) and *Oplan Kandado*.

[9] Based on the submission of the Bureau of Internal Revenue

Table 9. BIR Collection Performance (In billions)

Particulars	2017 Actual	2018		Variance		Increse/(Decrease)	
		Program	Actual	Amt	%	Amt	%
Taxes on Net Income and Profits	503.5	470.6	513.1	42.5	*9.0*	9.7	*1.9*
Taxes on Property	4.2	2.9	3.2	0.3	*9.2*	(1.0)	*23.0*
Taxes on Domestic Goods and Services	346.0	465.2	452.7	(12.5)	*(2.7)*	106.7	*30.8*
Value-Added Tax	174.3	222.4	189.8	(32.6)	*(14.6)*	15.5	*8.9*
Excise Tax	89.6	137.1	152.8	15.7	*11.5*	63.3	*70.7*
Percentage Taxes	38.0	43.4	37.4	(6.0)	*(13.8)*	(0.6)	*(1.5)*
Franchise Taxes	0.3	0.4	0.2	(0.2)	*(56.4)*	(0.1)	*(37.8)*
Documentary Stamp Tax (DST)	40.7	59.6	65.3	5.6	*9.4*	24.5	*60.3*
Other Taxes	3.2	2.3	7.2	4.9	*215.4*	4.0	*123.4*
Tax Refund	(5.6)	-	(4.5)	(4.5)	---	1.1	*(20.4)*
Total BIR Collections	**848.0**	**938.7**	**964.5**	**25.80**	***2.8***	**116.5**	***13.7***

Sources: DOF and BIR

Income taxes accounted for 53.2 percent of the BIR's total tax collection for the first six months of the year, growing by 1.9 percent year-on-year despite the increase in the exemption and the reduction of the individual income tax rates under the TRAIN Law. Both excise tax and Documentary Stamp Tax collections accelerated by 70.7 percent and 60.3 percent, respectively, from the levels recorded for the first semester last year, largely due to the passage of the TRAIN Law. Likewise, Value-Added Tax increased by 8.9 percent from a year ago, but lower than program by 14.6 percent due to the implementation of higher threshold on VAT exemption from P1.9 billion to P3.0 billion under the TRAIN Law. Collection performance of other taxes also improved by 123.4 percent when compared to 2017. Meanwhile, percentage tax collections declined by 1.5 percent year-on-year, attributed to the shift from monthly to quarterly filing.

Bureau of Customs[10]

The Bureau of Customs collected some P279.4 billion in tax revenues from January to June 2018, increasing significantly by 32.9 percent from its collections for the same period last year and surpassing its target by 3.4 percent.

This remarkable performance was attributed to the proper valuation and tariff classification of goods, revenue enhancement measures, strengthened campaign against illegal trade, and higher excise tax on imported petroleum products. The depreciation of the peso, higher oil prices and higher import volumes also contributed to the growth in BOC collection.

Table 10. BOC Collection Performance (In billions)

Particulars	Actual First Semester		Increase/(Decrease)	
	2017	2018	Amt	%
Import Duties and Taxes	25.9	37.3	*11.4*	*44.1*
VAT on Imports	158.2	195.4	*37.2*	*23.5*
Spec (Excise)	24.9	46.6	21.6	*86.7*
Other Collections	1.2	0.1	*(1.1)*	*89.4*
o.w. Tax Refund	(1.9)	(1.5)	*0.4*	*(19.7)*
Total BOC Collections	**210.3**	**279.4**	***69.1***	***32.9***

Sources: DOF and BOC

Borrowing Performance

National Government Financing

As of June 2018, the NG raised P460.9 billion in gross financing, below the P593.0 billion program given the lower–than-programmed budget deficit of P193.0 billion and the refinancing requirement of P80.9 billion for the period.

[10] Based on the submission of the Bureau of Customs

Table 11. National Government Financing (In millions)

Particulars	First Semester		Variance		2018 Program 4/	2018 Revised Program 5/
	Program	Actual	Amt	%		
NET FINANCING	**562,194**	**379,989**	**(182,205)**	**(32.4)**	**821,274**	**854,236**
External Borrowing (Net)	108,517	75,823	(32,694)	(30.1)	114,346	217,484
External Borrowing (Gross)	137,367	155,823	18,456	13.4	176,269	331,750
Project Loans	20,526	19,683	(843)	(4.1)	41,055	21,229
Program Loans	65,841	21,444	(44,397)	(67.4)	84,214	84,199
Bonds and Other Inflows	51,000	114,696 1/	63,696	124.9	51,000	226,323
Less: Amortization	28,850	80,000 2/	51,150	177.3	61,923	114,266
Domestic Borrowing(Net)	453,677	304,166	(149,511)	(33.0)	706,928	636,752
Domestic Borrowing (Gross)	455,677	305,037	(150,640)	(33.1)	711,958	640,114
Treasury Bills	85,677	66,580	(19,097)	(22.3)	71,958	15,651
Treasury Bonds	370,000	238,457	(131,543)	(35.6)	640,000	624,463
Less: Net Amortization	2,000	871	(1,129)	(56.5)	5,030	3,362
Amortization	*171,517*	*170,388*	*(1,129)*	*(0.7)*	*267,130*	*265,462*
o/w Seviced by the BSF 3/	*169,517*	*169,517*	*-*	*-*	*262,100*	*262,100*
GROSS FINANCING	**593,044**	**460,860**	**(132,184)**	**(22.3)**	**888,227**	**971,864**
Financing Mix (% of Total)						
External	23%	34%			20%	34%
Domestic	77%	66%			80%	66%

1/ Includes proceeds used to prepay outstanding bonds in bond exchange transactions
2/ Includes prepayments made through bond excahnge transactions
3/ Actual redemption from Sinking Fund
4/ Based on BESF 2018 Table D.1
5/ Based on BESF 2019 Table D.1
Source: BTr

To mitigate foreign exchange exposure, issuance of domestic securities remained as the preferred financing source, with proceeds from the auction of treasury bills and bonds contributing P305.0 billion or 66.0 percent to the borrowing effort. Of the said amount, the government mobilized domestic small investor savings with the issuance of 3-Year Retail Treasury Bonds in June, with proceeds amounting to P121.8 billion. Meanwhile, gross treasury bills floatation totaled P210.1 billion while redemptions amounted to P143.5

billion, netting P66.6 billion for financing. Sale of 3-, 5-, 7-, 10- and 20-year treasury bonds accounted for the remaining P116.7 billion in domestic funding.

External borrowings made up P155.8 billion or 34.0 percent of the gross amount, sourced through availments of concessional loans from development partners and issuance of sovereign bonds in the international capital market. 74.0 percent of external funding were raised commercially, as the government embarked on a Global Bond exchange and the maiden issuance of Panda bonds in the first quarter of 2018.

The NG issued US$ 2 billion or P102.7 billion in 10-year Global Bonds with a new money component of US$ 750 million while switching US$ 975 million or P50.1 billion of previously issued expensive debt in February as part of liability management exercise to reduce interest payments and extend portfolio maturities. In addition to this, the government successfully tapped the Chinese market by the issuance of the first Panda Bond offering in March, selling P12 billion (RMB1.460 billion) of 3-year Renminbi-denominated securities as the government moved to diversify its investor base.

For the rest of 2018, the NG will continue to primarily borrow in local currency to meet its funding requirements and further reduce the country's exposure to foreign currency volatility. On the external side, the NG plans to issue Samurai bonds in the third quarter as part of its continuing effort to widen its investor base. The government targets a 66:34 mix between domestic and foreign sources of financing, requiring P335.1 billion in domestic and P175.9 billion of gross external borrowings to meet the revised 2018 program. The upward revision in the financing requirement will ensure that the government will have sufficient cash buffer in preparation for the 2019 first semester maturities, Bond Sinking Fund requirements and to cover potential claims.

The main risk to the financing program is the current normalization of policy rates by major foreign central banks as well as heightened domestic inflation. The former has driven a rising interest rate environment which has also prompted adjustments in domestic policy rates by the BSP also taking into account the recent inflation trend.

National Government Debt

In the first half of 2018, NG outstanding debt reached P7,016 billion (US$ 131.4 billion), growing by 9.3 percent or P599.1 billion compared to its level a year ago. In line with the financing program, preference for domestic borrowing aids in managing foreign exchange risks as the share of domestic debt accounted for 65.0 percent of total NG obligations amounting to P4,579 billion while the remaining 35.0 percent or P2,437 billion is external debt.

The NG's debt structure and characteristic has maintained a prudent exposure to market risks.

- The currency composition of the debt portfolio lowers exposure to adverse adjustments in foreign exchange rates. Based on value, 67.0 percent or P4,682 billion of the total NG debt as of end-June 2018 is denominated in local currency, followed by USD, JPY, EUR and other currencies at 27.0 percent, 5.0 percent, 0.5 percent and 0.5 percent, respectively.

- Higher weighted average interest rate (WAIR) reflects upward adjustment for domestic refinancing costs. The WAIR of 4.91 percent has slightly increased from 4.89 percent at the beginning of the year. In particular, while WAIR for foreign borrowing has gone down to 4.30 percent from 4.41 percent, WAIR for domestic borrowing has increased to 5.24 percent from 5.13 percent over the same period as domestic rates have begun to trend higher. WAIR for 2018 domestic bond issuance as of June is at 5.25 percent, 103 bps higher than the June 2017 WAIR of 4.22 percent.

- The debt structure maintains minimal exposure to adverse swings in interest rates. Only 8.65 percent of the total debt portfolio is subject to resetting, minimizing the sensitivity of interest payments to volatile market conditions.

- Average residual maturity of 9.92 years is near the upper bound of the medium-term target range of 7-10 year. Domestic and external debt have remaining maturities of 7.36 and 12.71 years, respectively.

Table 12. National Government Debt, 2017-2018 (In millions)

Particulars	June 2017	June 2018	Difference	Variance
Total NG Debt	**6,417,065**	**7,016,191**	**599,126**	***9.30%***
External	2,230,711	2,437,108	206,397	*9.30%*
Domestic	4,186,354	4,579,083	392,729	*9.40%*
% of Total				
External	35.00%	35.00%		
Domestic	65.00%	65.00%		
% of GDP	42.47%	42.45%	0.00%	
External	14.76%	14.75%	-0.01%	
Domestic	27.70%	27.71%	0.01%	
Total Interest Payments	**151,577**	**165,510**	**13,933**	
External	49,888	50,938	1,050	
Domestic	101,689	114,572	12,883	
% of GDP				
Total Interest Payments	2.02%	2.01%		
External	0.66%	0.62%		
Domestic	1.35%	1.39%		
% of NG Expenditures				
Total Interest Payments	11.39%	10.32%		
External	3.75%	3.18%		
Domestic	7.64%	7.14%		
% of NG Revenues				
Total Interest Payments	12.89%	*11.73%*		
External	4.24%	*3.61%*		
Domestic	8.64%	*8.12%*		
Average Maturity (years) [a/]	**9.96**	**9.92**		
External	12.43	12.71		
Domestic	8.19	7.36		
Weighted Ave. Interest Rate	**4.89**	**4.91**		
External	4.41	4.30		
Domestic	5.13	5.24		
Interest Rate Mix	***100.00%***	***100.00%***		
Fixed	*91.26%*	*91.19%*		
Floating	*8.57%*	*8.65%*		
Interest Free	*0.17%*	*0.16%*		
Memo Items				
GDP	15,111,391	16,527,615		
Peso/USD	50.45	53.40		
Expenditures	1,330,830	1,603,559		
Revenues	1,176,360	1,410,542		

[a/] Average Maturity measured in years on residual basis

Source: BTr

Expenditure Performance

Appropriations, Allotments and Obligations

Table 13. Statement of Appropriations, Allotments and Obligations
(In billions)

Particulars	Available Appropriations[1/]	Allotment Releases[2/]	Actual Obligations	Unobligated Balances	Obligation Rate[3/]	Disbursements[4/]
National Government Agencies	**2,520.3**	**2,371.8**	**1,157.8**	**1,214.0**	***48.8***	**1,063.5** [5/]
Special Purpose Funds (SPFs)	**872.1**	**700.8**	**436.9**	**263.9**	***62.3***	**373.2**
GOCCs	181.6	153.5	153.5	-	*100.0*	70.3
ALGUs	580.8	547.3	283.4	263.9	*51.8*	302.8
Other SPFs	109.7	-	-	-	-	-
Automatic Appropriations	**397.4**	**355.4**	**168.1**	**187.2**	***47.3***	**166.9**
Net Lending	16.8	1.4	1.4	-	*100.0*	1.4
Interest Payments	354.0	354.0	166.8	187.2	*47.1*	165.5
Other Automatic	26.6	-	-	-	-	
Total	**3,789.9**	**3,428.0**	**1,762.8**	**1,665.2**	***51.4***	**1,603.6**
By Funding Source	**3,789.9**	**3,428.0**	**1,762.8**	**1,665.2**		
Current Year	3,771.2	3,412.1	1,755.8	1,656.4	-	-
Continuing Appropriations	18.7	15.8	7.0	8.8	-	-

[1/]Includes adjustments per Special Provisions in the GAA, realignments of allotment classes and releases to implementing units from SPFs, Unprogrammed and Automatic Appropriations.

[2/] Includes the P13.9 billion unobligated allotment released in 2017.

[3/]Percentage of obligations vs allotment releases.

[4/]Based on the Cash Operations Report of the Bureau of the Treasury.

[5/]Includes P8.2 billion Tax Expenditure Subsidy

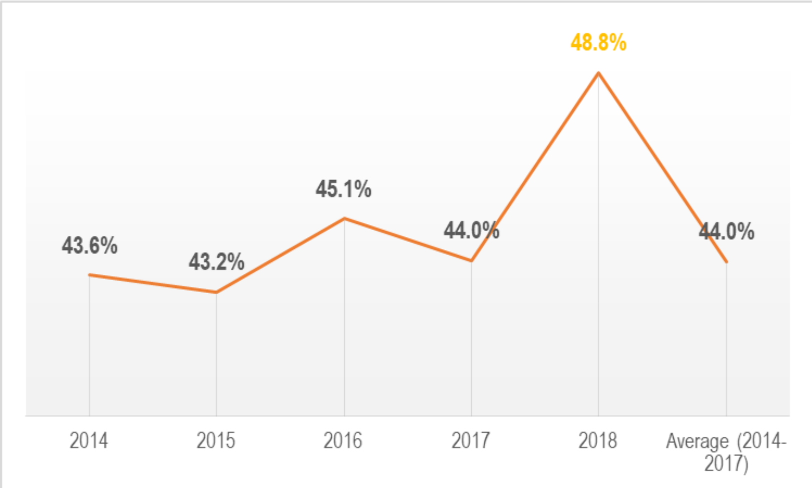
Source: Statement of Allotments and Obligations, DBM and Cash Operations Report, BTr

For 2018, the total appropriations available to the government amount to P3,789.9 billion, composed of P2,520.3 billion specific budget of National Government Agencies (NGAs), P872.1 billion Special Purpose Funds (SPFs) and P397.4 billion Automatic Appropriations.

Of the available appropriations, some P3,428.0 billion or 90.4 percent has been released for the first semester of 2018. This is comprised of P2,371.8 billion regular budget of NGAs, P700.8 billion from SPFs and P355.4 billion from Automatic Appropriations. Meanwhile, actual obligations recorded from the released allotments reached P1,762.8 billion as of end-June 2018, representing an obligation rate of 51.4 percent. Of this, P1,157.8 billion was obligated by

NGAs, recording an obligation rate of 48.8 percent, faster than the fund absorption in the preceding four years which only averaged 44.0 percent.

Figure 1. Obligation Rate of National Government Agencies, First Semester 2014-2018



The improvement is credited to the early release of allotments through the GAA-As-An-Allotment-Order, the one-year validity of appropriations, as well as the transition or preparation this year for the implementation of cash-based appropriations in 2019. These policy reforms require line agencies to plan early and conduct advance procurement activities so that their respective programs, activities and projects (PAPs) can be timely implemented for the year and quicken agency spending.

Disbursement Performance

Year-on-Year Performance

NG spending continued to accelerate behind strong infrastructure and other capital outlays and high PS expenditures. Disbursements for the first semester 2018 reached P1,603.6 billion, P272.7 billion or 20.5 percent higher year-on-year. Of this amount, infrastructure and other capital outlays amounted P352.7 billion, growing by P103.6 billion or 41.6 percent when compared to the same period last year. The significant growth is due mainly to the fast-tracking of implementation of both prior year and current year road infrastructure projects of the DPWH, as well as the completion of some capital outlay projects of the DILG-PNP (*construction of police stations and procurement of equipment under the Capability Enhancement Program*); DepEd, SUCs (*repair and rehabilitation of school facilities, acquisition of equipment*); and DOH (*procurement of medical and hospital equipment*). Meanwhile, PS reached P460.5 billion, increasing by P77.2 billion or 20.1 percent from the level recorded for the first semester last year, owing largely to the impact of higher pay of both civilian and military and uniformed personnel pursuant to E.O. No. 201, s.2016 and J.R. No. 1, s.2018, as well as creation and filling of positions in various agencies, notably the DepEd (teaching positions) and DILG-PNP (police officer positions). The other significant expenditures which supported the robust spending growth during the first semester were the following:

i. Maintenance and other operating expenses (P242.1 billion; 16.3 percent y-o-y) due to the implementation of K-12 Program of the DepEd, scholarship assistance and grants under the CHED, operating requirements of various schools, hospitals and line agencies nationwide;
ii. Subsidy (P67.7 billion; 16.4 percent y-o-y) on account of the release of cash grants for the *Tax Reform Cash Transfer Project* under the LandBank and health insurance premiums of qualified beneficiaries enrolled in the *National Health Insurance Program* of the PhilHealth;
iii. Allotment and Capital Transfers to LGUs (combined, P302.8 billion; 10.6 percent y-o-y) due to higher shares of LGUs from internal revenue collections, as well as the release of additional financial assistance of the NG to LGUs through the *Local Government Support Fund*; and
iv. Interest payments (P165.5 billion; 9.2 percent y-o-y) resulting largely from coupon payments for retail treasury bonds issued in 2017

Table 14. National Government Disbursements (In billions)

PARTICULARS	First Semester			Variance		Increase/ (Decrease)	
	2017	2018					
	Actual	Program	Actual	Amt	%	Amt	%
CURRENT OPERATING EXPENDITURES	**1,001.0**	**1,137.7**	**1,154.7**	**17.0**	***1.5***	**153.7**	***15.4***
Personnel Services	383.3	436.0	460.5	24.5	*5.6*	77.2	*20.1*
Maintenance and Other Operating Exp.	208.2	238.1	242.1	4.0	*1.7*	33.9	*16.3*
Subsidy	58.2	67.5	67.7	0.2	*0.3*	9.5	*16.4*
Allotment to LGUs	194.8	211.8	210.6	(1.3)	*(0.6)*	15.7	*8.1*
Interest Payments	151.6	173.0	165.5	(7.5)	*(4.3)*	13.9	*9.2*
Tax Expenditure	4.7	11.2	8.2	(3.0)	*(26.9)*	3.5	*73.3*
CAPITAL OUTLAYS	**331.2**	**425.8**	**447.5**	**21.7**	***5.1***	**116.3**	***35.1***
Infrastructure/Other Capital Outlays	249.1	338.3	352.7	14.4	*4.3*	103.6	*41.6*
Equity	3.2	3.7	2.6	(1.1)	*(29.6)*	(0.7)	*(20.2)*
Capital Transfers to LGUs	78.9	83.9	92.3	8.4	*10.0*	13.4	*17.0*
CARP - Land Acquisition and Credit	-	-	-				
NET LENDING	**(1.3)**	**5.6**	**1.4**	**(4.3)**	***(75.7)***	**2.7**	***(203.2)***
GRAND TOTAL	**1,330.8**	**1,569.1**	**1,603.6**	**34.4**	***2.2***	**272.7**	***20.5***

Source: DBM

Program vs. Actual Performance

Disbursements exceeded the program for the first semester mainly on account of payments for prior years' obligations, faster budget execution and improved fill up rates for creation and filling of positions. Total disbursements topped the P1,569.1 billion program for the first semester of 2018 by P34.4 billion or 2.2 percent. Of this overperformance, P24.5 billion was recorded from PS expenditures largely due to improved fill up rates for creation and filling of positions in the DepEd, as well as the payment of pension and retirement claims in the DILG-PNP and DND-AFP. Some P14.4 billion, meanwhile, was registered in infrastructure and other capital outlays and another P4.0 billion in maintenance and other operating expenses, in view of the acceleration of disbursements for infrastructure projects and payment of prior years' obligations. The improvement is also credited to the enforcement of one-year validity of appropriations in 2017 and 2018 that resulted in higher obligation rates of various agencies, as well as the transition to the cash-based appropriations in 2019 which prompted line agencies to clean up their prior years' accounts payables. Among the big-ticket prior years' obligations which were settled during the first half of 2018 include the *Voucher Programs for Private Senior High Schools* of the DepEd, *Acquisition of Equipment under the AFP Modernization Program and Capability Enhancement Program* of the DND and DILG, respectively, and various road infrastructure projects of the DPWH. The excess spending, however, was partly offset by the lower-than-programmed interest payments (P7.5 billion), and minimal availment for tax subsidy (P3.0 billion) and net lending (P4.3 billion).

Deficit

As of end-June 2018, deficit clocked at P193.0 billion, P38.5 billion or 25.0 percent higher than the budget gap recorded for the same period in the previous year. However, actual deficit was lower by P71.3 billion or 27.0 percent when compared to the P264.3 billion program for the first semester of 2018, largely on account of the higher-than-programmed revenue collections, specifically non-tax revenues which surpassed the target by P57.6 billon or 68.8 percent.

Table 15. National Government Fiscal Position (In billions)

PARTICULARS	First Semester			Variance		Increase/ (Decrease)	
	2017	2018					
	Actual	Program	Actual	Amt	%	Amt	%
Revenues	1,176.4	1,304.8	1,410.5	105.7	*8.1*	234.2	*19.9*
Expenditures	1,330.8	1,569.1	1,603.6	34.4	*2.2*	272.7	*20.5*
Surplus/(Deficit)	(154.5)	(264.3)	(193.0)	71.3	*(27.0)*	(38.5)	*25.0*

Sources: DBM and DOF

IV. Macroeconomic and Fiscal Outlook for the Rest of 2018

Macroeconomic Outlook

The country's real GDP growth performance in the first semester of 2018, at 6.3 percent, still maintains the Philippines' status as among the fastest growing economies in Asia. This growth rate however, is less than what is expected. Given the recent growth outturn, the Philippine economy needs to expand by at least 7.7 percent in the second semester to attain the low-end of the 7.0 - 8.0 percent GDP growth target for FY 2018. The government considers this a challenge, but nonetheless, maintains the growth target for 2018 with the aim to accelerate efforts to boost the growth momentum moving forward but nonetheless mindful of domestic and external risks.

Household consumption is likely to be supported by higher disposable income on account of improved labor market conditions in tandem with the recently enacted TRAIN Law. Government spending is expected to continue growing as social programs continue to be implemented. Investments also stand to benefit from the government's infrastructure program while the initiatives to reduce foreign investments restrictions through the approval of the 11th Regular Foreign Investment Negative List to complement the implementation of the Ease of Doing Business Act of 2018 should boost investor and consumer confidence.

The strong growth of domestic demand implies that the economy can grow faster as capacity is expanded. However, the almost stagnant output of the agriculture sector points to deficiency in domestic production, thus highlights the need for policies to be directed towards expanding capacity across different production sectors. Improved productivity in the agriculture sector, for instance, can be achieved through crop diversification. Moreover, the entry of a third player in the telecommunications industry can enhance output in the communications sector and support the growth of small business, particularly retail trade. On the other hand, labor market policies should also balance the twin objectives of supporting business expansion and ensuring the income security of workers.

Over the near-term, there is a need to address the sources of increasing inflation and fast-track the implementation of mitigating measures to reduce adverse impacts of higher prices on lower income households. The lifting of the quantitative restrictions on rice imports and replacing them with tariffs is expected to open up imports to the private sector, increase the supply of rice in the local market, and consequently reduce prices. Alongside this is the government's strict monitoring and efficient utilization of the minimum access volumes (MAV) awarded to traders of agricultural goods. This is to ensure that additional supplies of the said food products reach the country on time and across a wider market. Finally, the government should also expedite all means to strictly monitor price movements in the markets, especially against unwarranted increases.

Another possible risk that could affect the government's growth assumption is the upward pressure on petroleum prices. This, along with the depreciation pressure on the peso could further induce second-round inflationary effects through more fare hike petitions and increase the cost of electricity, gas and other fuels and operation of transport equipment.

On the external front, latest global growth outlook remain unchanged as of July 2018 (from previous projections in April 2018) at 3.9 percent for 2018 and 2019[11] but is likely to be uneven across major economies with the US gathering momentum, while Japan, Europe, and China are expected to slow down. Meanwhile, rising international oil prices, continued monetary policy normalization in the US, stronger US$ currency, trade tensions, and geopolitical tensions continue to pose risks to global expansion as well as investments. Nonetheless, the country's exports would likely benefit from the robust outlook for other ASEAN-5 member economies.

The DBCC continuously monitors and assesses the macroeconomic environment in line with the review of the macroeconomic assumptions needed in the formulation of the 2019 National Budget. The foregoing assessment considers the outlook for the rest of 2018.

Latest BSP forecasts indicate that inflation could average above the high-end of the target range for 2018. The assessment of the price and output conditions suggests that the risks surrounding the inflation outlook continue to be on the upside. Additional wage adjustments and transport fare hikes due to higher excise taxes on petroleum products and other key commodities, pending

[11] https://www.imf.org/en/Publications/WEO/Issues/2018/07/02/world-economic-outlook-update-july-2018

petitions for adjustments in transport fares and electricity rates, and faster-than-expected monetary policy normalization in the US are the main upside risks to future inflation. Meanwhile, slower global economic growth due to protectionist policies in advanced economies and geopolitical tensions along with the proposed reform in the rice industry involving the replacement of quantitative restrictions with tariffs and the deregulation of rice importation continue to be the main downside risks to inflation.

The DBCC raised the exchange rate assumption range from P48.00 – 51.00/US$1.00 to P50.00 – 53.00/US$1.00 to reflect the continuing and sustained demand for foreign exchange as the economy continues to grow as well as the anticipated higher target federal funds rate by the end of 2018. Nonetheless, the BSP believes that the peso will continue to be broadly stable at market-determined level. It is expected to draw its support from the country's firm macroeconomic fundamentals along with ample international reserves, sustained foreign exchange inflows from overseas Filipino (OF) remittances, foreign direct investments, and sustained market confidence due to the country's investment grade status.

Given the elevated prices of oil, the DBCC raised the Dubai crude oil price assumption to US$55.00 – 70.00 per barrel for 2018. This is consistent with the current prices in the spot market as well as futures prices and forecasts of multilateral institutions. Meanwhile, uncertainties surrounding the oil market could emanate from the geopolitical tensions in the Middle East, high inventory levels, and potential increase in US shale oil production. In addition, a slowdown in global trade due to trade friction between the US and China could affect oil demand and present downside risks to the global oil consumption.

Considering the recent uptrend in domestic interest rate, the DBCC shifted upward the assumption range from 2.5 – 4.0 percent to 3.0 – 4.5 percent for 2018. Going forward, the trends in the domestic T-bill market will continue to be influenced by the current liquidity management efforts by NG and the BSP, emerging fiscal position of the NG given the outcome of the implementation of the tax reform and acceleration of infrastructure spending, and future policy actions of the BSP and the US Fed.

The 180-day LIBOR assumption range for 2018 is adjusted upward from 1.0 – 2.5 percent to 2.0 – 3.0 percent. This reflects the recent outturn in average LIBOR as well as the outlook on the policy actions of major central banks in response to both domestic and global economic conditions. In particular, majority of the Federal Open Market Committee (FOMC) participants, in their June 2018 meeting, projects the target federal funds rate to settle at 2.25 – 2.50 percent, which indicates two more gradual increases for the rest of 2018. Meanwhile, the European Central Bank (ECB) expects slower pacing of their asset purchase programme in the last quarter of 2018.

The DBCC revised the exports growth projection for 2018 to 9.0 percent on 2 July 2018, to make it more in line with the actual first quarter 2018 performance and considering the potential impact of increased trade tensions among key economies on the global growth momentum and overall confidence and investment sentiment. Nonetheless, the 2018 exports growth projection is seen to be supported by firmer recovery in major trading partners' economic activity (with the IMF's upward revision in world growth projection for 2018) as well as strong demand potential for manufactured goods exports and recovery in mineral products exports in view of firming of global metal prices. The government continues to see semi-conductor exports to recover for the rest of year, as indicated by continued double-digit growth in world semiconductor sales. Moreover, the Semiconductor and Electronics Industries in the Philippines (SEIPI) targets electronics exports to grow by 5.0-6.0 percent in 2018 on the back of increased global demand.

Shipments of imported goods are expected to continue to grow robustly by 10.0 percent in 2018, unchanged from the previous projections, supported by sustained domestic growth outlook, moderate increase in commodity prices, and the increased demand for imports of raw materials and manufactured goods, particularly iron and steel, gaining from higher government investments in infrastructure consistent with its Build Build Build Program.

Measures to Address High Inflation

The BSP has raised the policy rate for the overnight reserve repurchase (RRP) facility four times this year by a cumulative 150 basis points.[12] These policy actions seek to moderate inflation expectations and prevent further build-up and possible second-round effects from supply-side pressures.

The government is also implementing measures outside monetary policy actions. An Executive Order (EO) is targeted to be issued by October this year to lay down actions and resolve constraints in the importation of agriculture and food products, particularly fish, meat, rice and sugar. Specifically, the EO directs the streamlining of procedures and requirements in food importation to speed up and reduce the costs of importation, which will subsequently lower market prices. It also orders the National Food Authority and the Department of Trade and Industry to ensure adequate food supply through additional rice importation and release to the market. It likewise requires the DA to issue necessary certificates and documents to facilitate importation of adequate volumes of fish, and the BOC to prioritize unloading and release of food shipments.

Moreover, the Rice Tariffication Bill is set to be enacted into law this year. The Bill was passed on third and final reading at the House of Representatives on August 14, 2018, and is currently under plenary deliberations at the Senate. The measure, which will replace rice importation quotas with tariffs, will result in downward prices of rice, a significant portion of the Filipino food basket, and hence, ease inflation expectations. Collected tariff revenues, meanwhile, will form part of the Rice Competitiveness Enhancement Fund which is earmarked for agriculture mechanization and modernization programs to help achieve food security and self-sufficiency.

Similarly, the government is accelerating the payout of cash grants to poor and vulnerable sectors under the Tax Reform Cash Transfer Project, also called Unconditional Cash Transfer (UCT) Program. Based on the status report of the DSWD as of August 2, 2018[13], a total of P12.8 billion was already paid to some

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[12] 25 basis point increase on May 10, 2018, another 25 basis points effective June 21, 2018, 50 basis points effective August 10, 2018, and another 50 basis points effective September 28, 2018. Report available at http://www.bsp.gov.ph/monetary/monetary.asp

[13] As reported by the DSWD during the Inter-agency Committee Meeting on Social Welfare and Benefits Program under the TRAIN Law on September 24, 2018.

5.3 million household beneficiaries. Meanwhile, the payout for the remaining P11.7 billion to cover the remaining 4.7 million household beneficiaries is ongoing and will be completed by end of the year. The UCT program was allocated with P24.5 billion in the FY 2018 Budget to mitigate the short-term impact of high prices resulting from the implementation of the TRAIN Law. The program provides monthly cash subsidies of P200.00 to 10 million households, composed of 4.4 million *Pantawid Pamilyang Pilipino* Program households, 3.4 million Social Pension Beneficiaries, and 2.2 million *Listahanan* households belonging to the first to seventh income deciles.

Fiscal Outlook

<u>Revenues, Disbursements and Deficit</u>

The DBCC is reassessing the medium-term macroeconomic assumptions and reviewing the fiscal targets in view of the current inflation and interest rate environment, as well as recent developments on the tax reform in Congress.

Specifically for 2018, revenues are being revisited given the performance of collecting agencies, also in consideration of the emerging macroeconomic indicators, as well as the status of the remaining packages of the TRAIN Law. Expenditure and disbursement programs are, likewise, being reassessed to ascertain remaining cash requirements of spending agencies for the rest of the year, determine what expenditures can still be obligated and disbursed by yearend, and ensure that disbursements are only made for actual goods delivered and services rendered.

These measures will allow the government to manage and maintain the 3.0 percent of GDP deficit target for the year, especially so with the risks from foreign exchange volatility, higher foreign and domestic interest rates, and greater global economic uncertainty. At the same time, these will affirm the government's commitment to ensure overall macroeconomic stability and long-term fiscal sustainability.

NG Debt

Debt as a percentage of GDP registered 42.45 percent as of end-June 2018, maintaining the same level a year ago. Nevertheless, judicious spending for growth and economic capacity is expected to further bring down the ratio to 42.1 percent by end-2018 and 38.6 percent by 2022.

The DBCC will meet in October this year to assess the impact of recent developments in the macroeconomy and the fiscal sector, and formulate and discuss appropriate policies and strategies moving forward. The inter-agency Committee will later on report on the decisions reached and recommendations made during the meeting.

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