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Towards Fiscal Discipline and Development Under the Duterte Administration

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UNDER THE DIRECTION OF PRESIDENT RODRIGO DUTERTE, the DBM aims to address the concerns that our previous budgets have not solved.

In just a few days after we took over, the economic managers decided to pursue an expansionary fiscal policy. This will allow us to invest heavily in public infrastructure and in the future of our young population. We decided to increase the deficit-to-GDP ratio from two percent to three percent. This implies a deficit target of P478 billion in 2017, rising up to P777 billion by 2022.

The planned deficit-to-GDP ratio of three percent may appear scary for some investors, but I can assure you that it is manageable, appropriate, and sustainable. Despite the planned deficit levels, the debt-to-GDP ratio is expected to decline over time. By the end of 2022, debt-to-GDP ratio is projected to fall to 35 percent from 44.8 percent in 2015. This is well below the reasonable deficit benchmark of 60 percent of GDP.

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On 27 September 2016, Secretary Diokno was the guest speaker at the annual membership meeting organized by the Makati Business Club at The Dusit Thani Manila, Makati City. Published here are excerpts from the keynote speech and the open forum.

PAVING THE WAY FOR INFRASTRUCTURE

The expansionary fiscal stance would allow us to spend more to make up for the past neglect of public infrastructure. The harsh truth is that despite the decent, sustained economic growth in more than a decade, the Philippines has the worst public infrastructure among its Asian peers. Our goal is ambitious but achievable. We plan to boost spending in public infrastructure from 5.4 percent of GDP in 2017 to as much as 7.2 percent of GDP by 2022. In 2017 alone, we plan to spend P860.7 billion – or about $18 billion dollars – for public infrastructure projects. I estimate that as much as P8.2 trillion – or about $170 billion dollars – will be spent on public infrastructure between 2017 and 2022.

Is this doable? The short answer is yes.

First, we will change the way we implement infrastructure projects. Construction work for major infrastructure projects in urban centers will go on 24 hours a day, 7 days a week come 2017.

Second, all major projects will be geo-tagged so we can monitor them on a weekly basis using modern technology – Google Maps and drones.

Third, the government has already started streamlining the approval process for major public infrastructure projects. Recently, the National Economic Development Authority (NEDA) Board approved nine (9) projects worth a cumulative P171.3 billion. Eight (8) of these projects are infrastructure projects worth a combined P161 billion. The economic hurdle rate has also been reduced from 15% to 10% due to improved economic conditions.

If all of the above fails, I am still confident given the political will and management style of the President. He has made it clear to the members of his cabinet: use it or lose it – as in lose your job. The President does not tolerate incompetence.

SPENDING MORE FOR SOCIAL AND ECONOMIC SERVICES

Beyond infrastructure development, the proposed P3.35 trillion budget will allow the government to expand its delivery of social and economic services. The administration will continuously increase the percentage to GDP of social services, from the current 7.7% to reach 9.1% of GDP by 2022.

The increase in spending will be backed by increase in revenue to keep the deficit-to-GDP ratio sustainable. Our borrowings will be complemented by increases in government revenue resulting from more efficient tax administration and the passage of new revenue measures being proposed by the Department of Finance (DoF). Revenues are expected to reach P2.48 trillion in 2017, 10 percent higher than 2016 collections and equivalent to 15.6 percent of GDP. Revenues are also targeted to increase by 11 to 12 percent annually to reach P4.68 trillion or 18.1 percent of GDP by 2022.

IMPLEMENTING PROCUREMENT AND POLICY REFORMS

All these increased spending

will be also accompanied by procurement and policy reforms:

First, the Implementing Rules and Regulations (IRR) of the Government Procurement Reform Law have been simplified. It has been cited as a reason for delays in project implementation, so in response to criticisms, we have revised the IRR of the Procurement Law.

Second, the Public-Private Partnership (PPP) program will also be revitalized to fully tap the potential of the private sector. As of July 26 2016, barely four weeks after we've been sworn to office, we have already approved around P297.9 billion ($6.4 B) worth of projects in the PPP pipeline.

Third, we will reform the tax system to make it more equitable, efficient and competitive in the region. A number of reforms will be pursued, primarily the lowering of personal and corporate income tax rates from 32 percent and 30 percent, respectively, to 25 percent.

The loss in revenues due to income tax cuts will be offset by expanding the Value-Added Tax (VAT) Base. We aim to remove the exceptions not related to agriculture, health, banking, education and the financial sector. This will result in additional revenues amounting to P68.6 billion in the first year of implementation. We are also proposing new excise taxes on oil which will reach P130.5 billion in revenues in its first year of implementation. Lastly, fiscal incentives will be rationalized to allow a more balanced environment for competition.

Finally, we filed a Right Sizing Bill which will re-organize and professionalize the government. We are also working on a Budget Reform Bill which will ensure that all budgets of all the years to come, regardless of who sits in Malacañang, will be fully compliant to pertinent laws in the land, particularly the landmark Supreme Court decisions on PDAF and DAP .

Ladies and gentlemen: the Duterte administration is serious in pursuing a pro-growth but disciplined fiscal policy. Indeed, change is coming for a more positive business climate and a better, safer, more peaceful, and beautiful Philippines. We invite you to join us in this challenging but highly rewarding journey! ■

Excerpts edited by
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About The Speaker

Secretary Benjamin Diokno

Secretary Benjamin Diokno is a veteran member of government, once serving as chairman and CEO of the Philippine National Oil Company and chairman of the Local Water Utilities Board. It is, however, in the Department of Budget and Management where he has made the most impact, as he was Budget Undersecretary during the term of President Cory Aquino and the Budget Secretary of President Joseph Estrada. Not to be discounted as well, is his 39 years of dedication and experience as a professor in the University of the Philippines School of Economics where provides policy advice and conducts research in the fields of public economics, public expenditure management, resource economics, and economic development. ■

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THE FORUM FOR CONSTRUCTIVE IDEAS

The Makati Business Club invites guest speakers to its General Membership Meetings and MBC Briefings to discuss public issues and trends, whether local or global, that have an impact on Philippine development. MBC Forum highlights the speeches and discussions at these gatherings. The full text of speeches and other presentations may also be found at the MBC website, www.mbc.com.ph.

Q&A

To what extent has COA been brought into the Administration's thinking so that they become a cooperative group in terms of the inplementation of infrastructure projects?

The Commission on Audit has risen many times during our cabinet meetings. We are working closely now with COA. I think Chairman [Michael] Aguinaldo is very receptive to suggestions. At that level [in COA] there is no problem, it's in the lower level. I can assure you that we're working on it, try to streamline operations so the Commission on Audit will be a partner rather than a deterrent to further progress in the bureaucracy.

If you are not able to achieve the projected revenues, are you going to be scaling back in order to maintain the three percent budget deficit to GDP ratio?

I remember during the first year of Mr. Estrada we're coming out of the Asian financial crisis and so we are trying to spend the expenditure program. My policy at that time is what you see is what you get budget releases. I remember Titoy Pardo who is the finance secretary got to call me and said slow down on your releases. I said, "Titoy, that's your problem. My problem is to release them."
You kow, I have been in government for too long. When you micromanage expenditures there will be a lot of unintended consequences if you have to slow down the whole bureaucracy. So, if I have to make adjustments it would have to be after a year or two. Projects that are ongoing, I will let go. Because you cannot see at what part of it you say, "look slow down, we need to maintain the deficit." You don't micromanage like that.

It was some of the reform I did 15 years ago – that what you see is what you get budget releases. Because for so long, I've been used to, well after serving Mrs. Aquino that releases were on a quarterly basis. For example, a P100 million project would be released P35 million. I said, why not authorize that whole thing. If they are moving the project fast that should be welcomed. The faster the project is done, the better. It took a while before it dawned on me that that really is a bad practice, when you micromanage expenditure. Big projects, in fact all infrastructure projects, I want it released as soon as possible because of seasonality. The best time to do construction work in this country is during the first half of the year. The dry months. You cannot release it slowly so that by the time it is fully released, it's already rainy season. So now, I will not hold back. I will let go. Then will really make adjustments, if there's really no apparent, no clear case for me to slow down, I will do in a year or two years after. But you know, three percent of GDP, that's not really bad. Many countries would have a deficit of five to six percent. We've had that. For as long as you put the money in the right places. If you have a project that has a rate of return of 20% and you can borrow money at five percent, that's a no brainer. Go for it.

When do you think the macro numbers would actually demonstrate that the government is able to spend and truly disburse this amount of money, as well as what other macronumbers should we be monitoring especially for analysts who want to review your output?

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WASHINGTON

35 years in the Business of Nation-Building

Founded in October 1981, the Makati Business Club is a private non-stock, non-profit business association composed of over 700 CEOs and senior executives representing the largest and most dynamic corporations in the Philippines.

Organized as a forum for constructive ideas and action, we address economic, political, and social policy issues affecting the Philippines' development. For over three decades, we have fostered the Philippine business community's engagement in national development effort through **initiatives in advocacy, investment promotion, information services and publishing, and corporate citizenship.**

Presently, we actively participate in the campaign for greater public and private sector transparency and accountability through the **Integrity Initiative, Coalition Against Corruption**, and the **Open Government Partnership.** Through the network of the **Philippine Business Groups and the Joint Foreign Chambers of the Philippines**, we also regularly push for substantial economic and social reforms. We encourage business groups beyond Manila to be part of national discourse through **our partner business clubs** in the **Autonomous Region of Muslim Mindanao, Metro Batangas, Cagayan de Oro, Cotabato, Cebu, Davao, Iligan, Iloilo, and Calamba and Sta. Rosa in Laguna.**

As the Philippines faces the challenges of a globalized economy, we are promoting the private sector's participation in the **global business dialogue on economic cooperation and regional integration.** We serve as the secretariat of **bilateral business councils** formed with private sector counterparts from the United States, United Kingdom, France, Singapore, and Malaysia.

Looking to the future, we are committed to helping realize the vision of a globally competitive Philippines, characterized by sustainable and inclusive growth, solid and stable institutions, and good political and corporate governance.

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