Republic of the Philippines
Development Budget Coordination Committee
Malacañang, Manila

Year-End Report on the 2012 National Budget

27 December 2013

Fiscal Year 2012 was an exceptional year for the Philippine economy in various fronts: expectation-breaking domestic growth of 6.8 percent; another 10-place jump in the Global Competitiveness Index rankings; the enactment of necessary socioeconomic measures—Sin Tax Reform and Reproductive Health; among other unprecedented wins.

The National Budget was among the key policy tools that made these economic gains possible. The resurgence of disbursements, especially on infrastructure, has bolstered Gross Domestic Product (GDP) growth. The continued strength of revenue collections has also expanded resources deployed for priority development interventions. Government has also kept within its deficit and debt targets, contributing to sustained macroeconomic stability.

These results are discussed in this 2012 Year-End Report, which is produced for the first time by the Development Budget Coordination Committee (DBCC) in line with its commitment to achieve greater fiscal transparency. Through this report, the DBCC—the inter-agency body mandated to determine, coordinate and review government fiscal and budget policy—presents how the government spent within its means, on the right priorities and with measurable results for the overall development of the country and the empowerment of citizens.

This Year-End Report for Fiscal Year 2012 discusses the following:

- An overview of the policy objectives of the 2012 National Budget;

- The macroeconomic and fiscal outturn in 2012, with analyses on the performance of revenues, disbursements and financing against targets and previous performance;

- More detailed discussions on Government's expenditure performance (contractual obligations incurred), including highlights on major programs and projects, and;

- Discussion on the public financial and expenditure reforms which supported these gains and which seek to ensure further economic growth and fiscal strength in the coming years.

The 2012 National Budget—dubbed the "Results-Focused Budget"—put to action the Aquino Social Contract of the Filipino People. It was shaped by important budget reforms introduced by the Administration to focus public funds not just to bridge gaps, but also to give people a better chance to achieve prosperity for themselves. The economy's achievements in 2012 serve as a strong take-off point for the coming years, towards achieving Inclusive Development that benefits all.

I. The 2012 National Government Budget

> *"This Budget—the first that this administration is fully crafting—embodies our commitment to lift the poor from poverty through honest and effective governance… This Budget is a Results-Focused Budget."*
>
> - President Benigno S. Aquino III
> President's Budget Message for FY 2012

On 26 July 2011, President Aquino submitted to Congress the proposed P1.816-trillion National Expenditure Program (NEP) for fiscal year 2012: a Results-Focused Budget. It was a Budget that sustained reforms introduced at the start of the Administration to ensure that each peso spent by the government counts in its pursuit of poverty reduction and inclusive growth. In designing this Budget, the Aquino Administration sought to focus national resources in fulfilling his Social Contract with the Filipino People and its five key results areas (KRAs) identified by Executive Order (E.O.) No. 43 s. 2011, to wit:

1. Transparent, accountable and participatory governance;
2. Poverty reduction and empowerment of the poor and vulnerable;
3. Rapid, inclusive and sustained economic growth;
4. Just and lasting peace and the rule of law; and
5. Integrity of the environment and climate change adaptation and mitigation.

The 2012 Budget, as submitted to Congress and eventually approved into the General Appropriations Act (GAA), was developed following these key principles:

Daylight in Governance

The 2012 Budget marked the introduction of new mechanisms for fiscal transparency and citizen's participation: the Transparency Seal requirement for all agencies to post their budget information in their respective websites; the use of information and communications technologies, such as the disclosure portal for Priority Development Assistance Fund (PDAF) releases; and the Agency-Civil Society Budget Partnerships, which was piloted in the crafting of the budgets of nine departments and government corporations.

Shunning the "Business-as-Usual" Mindset in Combating Poverty

The 2012 Budget also sought to deepen the bias for the poor and marginalized sector in public spending. For one, the share of the Social Services sector increased to 32.4 percent of the total budget, from 28.8 percent in 2003. Provisions for social protection, basic education, public health and housing, among others, did not only increase markedly: the government also laid out policies to foster cross-agency collaboration in order to ensure the synergized delivery of programs and projects for poverty reduction. The government also expanded the use of the National Household Targeting System for Poverty Reduction (NHTS-PR) to ensure the precise targeting of anti-poverty interventions; as well as public-private partnerships (PPPs) to solve lingering gaps in education and healthcare services.

Consolidating our Strengths for Economic Growth

The 2012 Budget was designed to address critical constraints to growth. The year was marked by huge successes in government's revenue-enhancing reforms, most particularly, the passage of the Sin Tax Reform law. Moreover, the 2012 Budget enabled higher government spending for Economic Services—increasing to 26.8 percent of the total Budget in 2012, from 20.6 percent in 2003—especially in infrastructure, support for agriculture, and tourism development. With the increased revenue collection and prudent expenditure and borrowing management, the government was able to stay within its fiscal consolidation objective of maintaining the fiscal deficit at 2.3 percent of GDP, while achieving an expectation-breaking GDP growth of 6.8 percent for the year.

Enhanced Context for Development

The 2012 Budget helped the government ensure an environment that is conducive for development: a climate of peace and security; and of preparedness to climate change. Through this Budget, the government not only pursued the negotiated settlement of conflicts (which led to the signing of the landmark Framework Agreement on the Bangsamoro) but also synergized poverty reduction interventions in conflict-affected areas. This Budget not only increased provisions for climate change adaptation and mitigation efforts but also supported innovations to support environmental integrity, like the use of coco coir and other sustainable materials for infrastructure projects.

The 2012 Budget was shaped by the Aquino Administration's deep commitment to its Social Contract with the Filipino People: a commitment to deliver the direct, immediate and substantial benefits of good governance to the Filipino People. "We have introduced reforms in public expenditure management to ensure that public funds and resources benefit only the people, not the pockets of a few," President Aquino said in his 2012 Budget Message.

II. The National Government Macroeconomic and Fiscal Performance

a. Macroeconomic Environment

In 2012, the Philippine economy grew by 6.8 percent, higher than the DBCC-approved growth projection of 5.0-6.0 percent that was reflected in the 2013 Budget of Expenditures and Sources of Financing (BESF), and the emerging estimate of 6.0 percent that was approved by the DBCC in November 2012.

The real GDP growth in 2012 is an accelerated performance compared to the recorded 3.6 percent growth in 2011. The country also posted the highest real GDP growth among leading ASEAN economies during the period, higher than Thailand (6.4 percent), Malaysia (5.6 percent), Singapore (1.3 percent), Indonesia (6.2 percent), and Vietnam (5.2 percent), and next to that of the People's Republic of China (7.8 percent).

Table 1. Real GDP Growth, 2011-2012

Particulars	2011 Actual 1/	2012		
		2013 BESF Assumption 2/	Emerging Estimates 3/	Actual 1/
Real GDP Growth Rate (%)	3.6	5.0-6.0	6.0	6.8

Sources:
1/ National Statistical Coordination Board as of August 2013
2/ BESF 2013
3/ DBCC-approved as of November 28, 2012

For the supply side, this respectable economic performance was due to the strong growth of the Industry and Services sectors, particularly trade and repair of motor vehicles; manufacturing; real estate, renting and business activities (which includes BPOs); other services (which captures tourism); and construction.

- *Agriculture, hunting, fishery and forestry (AHFF).* For 2012, palay production recorded the fastest growth (8 percent) and it remained as the biggest contributor to the sector's growth. Crop production was supported by more favorable weather conditions compared to previous year, as well as government programs and projects such as the Department of Agriculture's (DA) Five Croppings in Two Years (5 in 2), the Early Wet Planting and the Quick Turn Around (QTA) Programs. The construction of Farm to Market Roads (FMRs) through the Mindanao Rural Development Project (MRDP) in CARAGA also encouraged farmers to plant palay. Other programs on crops contributed as well such as the High Value Crops Development Program (HVCDP) and the support facilities for sugarcane and coconut. Livestock and poultry grew moderately as the production of pork, chicken and duck offset the contraction of carabao and goat production. The fisheries subsector contracted for the first half of the year, posted zero growth in the third quarter, and recovered with a positive growth in the fourth quarter. The contraction in fishery production was caused by lesser fishing trips, unstable fuel prices, and lesser appearance of some species.

- *Industry.* Manufacturing and construction are the main drivers of the industry sector in 2012 with growth rates of 5.4 percent and 15.7 percent, respectively. The manufacturing subsector, the largest component of the GDP, was primarily driven by increases in food manufacturing, furniture and fixtures, and wearing apparel. Meanwhile, the construction subsector was fueled by public construction in the first half and by both public and private construction in the second half. In 2012, measures were implemented to speed up the implementation of government infrastructure projects such as those implemented by the Department of Public Works and Highways (DPWH): the clustering of projects to facilitate bidding, the greater devolution of procurement authorities to District Engineers as well as the expedited processing of right-of-way (ROW) acquisition. The Disbursement Acceleration Program released some P58.7 billion of additional funds into the economy using savings and other funds freed by the President. These were used to augment tourism road infrastructure, school infrastructure, rehabilitation and extension of light rail transit systems, and sitio electrification, among others. Electricity, gas, and water subsector also recorded positive growth rates in 2012. This was in support of the rapidly expanding economy as the highest growth in demand for electricity was recorded by the commercial and industrial sectors. Meanwhile, the mining and quarrying subsector posted positive growth rates starting in the second and fourth quarters of 2012. The positive performance of the subsector was due to the strong growth of chromium, nickel, other metallic mining, stone quarrying, clay and sandpits and other non-metallic mining, which was pulled down by the substantial contraction in gold mining caused by the continued suspension of operations of several mining firms and the decline in gold purchases of the Bangko Sentral ng Pilipinas (BSP).

- *Services.* Strong growth was recorded in all services subsectors. The low and stable inflation, favourable interest rates, expanding population, the rise of the middle class and better employment opportunities contributed to the overall growth. The growth in the services sector was mainly contributed by trade and repair of motor vehicles, which expanded by 7.5 percent due to retail and wholesale trade. This was followed by real estate, renting, and business activities, which posted the same year-on-year growth as trade but with a higher level of productivity, fuelled by the demand for residential and office spaces brought on by the BPO industry and by the remarkable performance of the BPO industry itself which further expanded in terms of revenues by 18 percent[1] in 2012. Meanwhile, with the continued efforts of the Department of Tourism (DOT) in promoting inbound tourism, other services subsector expanded due to the developments of tourist spots and related industries in the country. Tourist arrivals reached 4.3 million in 2012, with the most number of visitors coming from South Korea, USA, and Japan. These are evidenced in the strong growth of recreational, cultural, and sporting activities, health and social work, and hotels and restaurants subsectors. Meanwhile, the other services subsectors that help buoyed the sector's growth are transportation, communication, and storage subsector, which grew by 8.1 percent due to larger commuter volume and expansions in major telecommunications companies to accommodate higher technology

[1] World Bank's Poverty Reduction and Economic Management Unit, East Asia and Pacific Region, *"Philippine Economic Update: Accelerating Reforms to Meet the Jobs Challenge,"* May 2013

demands, and the financial market, which gained due to its stability amidst the uncertainties in the external environment. Meanwhile, public administration and defense grew by 6.1 percent due to salary adjustments in accordance with the Salary Standardization Law (SSL) III, increase in allocation for social protection and empowerment programs for the poor, such as the Pantawid Pamilyang Pilipino Program (4Ps), implementation of banner projects of the Department of Agriculture (DA), Department of Health (DOH), as well as routine maintenance projects of the DPWH.

On the expenditure side, the main contributors to the 2012 growth were net exports, food and non-alcoholic beverage consumption; government final consumption; and public construction.

- *Household final consumption expenditure.* Household consumption continued to post a robust growth in 2012 of 6.6 percent driven by spending on food and non-alcoholic beverage, miscellaneous goods and services, housing and utilities, and communications. This performance was supported by the moderate movement in consumer prices, which decelerated to 3.2 percent in 2012 from 4.6 percent in 2011 and higher income of households, coming from the implementation of the SSL III and the continued increase in overseas Filipinos (OF) remittances, which grew by 6.3 percent in 2012. This emulates the improved consumer confidence in the country as shown in the Consumer Expectations Survey of the BSP.

- *Government final consumption expenditure (GFCE).* GFCE for 2012 grew by 12.2 percent from 2.1 percent in 2011. This remarkable growth was largely due to the robust expansions in maintenance and other operating expenditures (MOOE) all throughout the year, driven by increases in disbursements for government social protection programs such as the 4Ps and banner programs in agriculture, education and family health. The increase in government consumption is also attributed to the implementation of the last tranche of SSL III.

- *Capital formation*. In terms of capital formation, the country did not perform well in 2012 as it posted a 3.2 percent contraction from the 2.0 percent expansion in 2011. This was mainly due to the high inventory draw downs (333.8 percent), although this could be partly attributed to the continuous improvement in the manufacturing sector, driven by the rebound in exports and the increasing demand from households. In terms of fixed capital formation, the Philippine economy posted a double-digit growth. This is better than expectations due to strong investments in construction (15.1 percent), durable equipment (8.0 percent), and intellectual property rights (18.0 percent). Public construction expanded by 29.8 percent in 2012 from a 39.5 percent contraction a year ago due to improved absorptive capacities of key government agencies and the government's initiative to fast track the implementation of various infrastructure projects all over the country, such as irrigation projects and roads in support of inclusive growth. Meanwhile, private construction also posted a two-digit growth of 11.5 percent from 4.5 percent in 2011, buoyed by higher demand for residential properties and office spaces due to the expansion of businesses, higher OF remittances, and low interest rates.

- *Exports*. Total exports in 2012 was better than expected due to the strong 10.3 percent rebound in merchandise exports, which offset the deceleration in growth in exports of services. The encouraging outturn in exports of goods reflects the improving global economic climate as industrial production and business expectation indicators predominantly point upward. The following are the export growth drivers: (1) *electronic components*: control instrumentation, telecommunication, semiconductors, office equipment, and medical/industrial instrumentation; (2) *principal agricultural/fishery products*: bananas, including plantains, fresh or dried, tuna, coconut oil, and copra oil cake or meal; and (3) *other products*: metal components, basketworks, and ignition wiring sets. Meanwhile, exports of services increased by 3.6 percent, a deceleration from the 16.9 percent expansion in 2011 due to the slowdown in miscellaneous, transportation, and government services, which offset the strong rebound in export of travel and insurance services. Miscellaneous services, which has the largest share in exports of services, grew only by 0.7 percent from 19.5 percent a year ago due to contraction in other businesses (-5.9 percent), computer and information (-18.7 percent), and financial (-11.2 percent).

- *Imports*. The growth of total imports in 2012 was below expectation due to the slightly lower growth of import of goods. Notwithstanding, the 3.0 percent increase in merchandise imports is already faster compared to the 0.6 percent growth in 2011. Growth of merchandise imports was mainly propelled by the electronics subsector (10.7 percent) as global demand for the said commodity recovered. Meanwhile, imports of raw materials and intermediate goods have registered positive increases due to the ramp–up of industries as business optimism dominates within the near-term. These imports include transport equipment (54.0 percent), mineral fuels (28.5 percent), paper products (8.2 percent), cereals (3.8 percent), textile yarns (2.5 percent), and feedstuff (7.9 percent). On the other hand, imports of services went up due to the growth of travel (13.1 percent), miscellaneous (32.2 percent), and transportation services (11.9 percent).

The country's economic performance in 2012 was supported by sound macroeconomic fundamentals, particularly healthy fiscal and external balances, low and stable inflation, and favorable interest rates as well as the continued strong inflow of remittances from migrant Filipino workers, net portfolio investments, and foreign direct investments (FDI), which contributed to domestic demand through consumption and investment channels, although risks associated with exchange rate volatility increased.

Average headline inflation stood at 3.2 percent in 2012, lower than the 4.6 percent average in 2011 and well-within the forecast and inflation target range for 2012 of 4.0 percent ± 1.0 percentage point. Manageable inflation and well-anchored inflation expectations provided flexibility for the BSP to reduce policy rates by a cumulative 100 basis points during the year. Lower policy interest rates contributed to lower bank lending rates that, in turn, helped encourage domestic investment and consumption, and allowed the economy to build greater resilience against the global headwinds.

Following the reduction in the BSP's key policy rates, domestic market interest rates declined in 2012. The 364-day Treasury bill rate registered an average of 2.0 percent, below the 3.0 – 5.0 percent assumed for the budget for 2012. Low interest rates on government debt papers were mainly due to the ample liquidity in the financial system which fueled strong demand for Treasury instruments. Foreign interest rates were also low in 2012 as central banks of advanced economies adopted accommodative monetary policies to encourage domestic spending and support economic growth. The average 180-day London Interbank Offered Rate (LIBOR) settled at 0.7 percent in 2012, within the government assumption for the year of 0.5 – 1.5 percent.

The peso remained broadly stable during the year, moving in tandem with the majority of Asian currencies. The peso registered an average of P42.23/US$1.00 in 2012, falling within the government assumption of P42–45.00 per US dollar and stronger by 2.5 percent compared to the P43.31/US$1.00 average in 2011. The steady movement of the peso against the US dollar was reflected in the low volatility of the peso which stood at P0.82/US$1.00. The country's strong external position, characterized by sustained surplus in the overall balance of payments (BOP) position, supported the peso's strength in 2012. The strength of the peso was also anchored on the country's sound macroeconomic fundamentals including a benign inflation environment, comfortable fiscal space, and stronger-than-expected growth.

Dubai crude oil prices rose slightly in 2012 to reach an average of US$109.24 per barrel in 2012 from the 2011 average price of US$106.20 per barrel. This was within the range of the government oil price assumption for the year of US$90–110.00 per barrel. Supply disruptions caused oil prices to increase during the review period as geopolitical tensions in the Middle East and North Africa (MENA) region persisted in 2012. These upside pressures were, however, weighed down by the softness of the global economy.

Table 2. Selected Macroeconomic Indicators

Particulars	DBCC Assumptions for 2012		Actual 2012
	Per 2012 BESF	Revised Per 2013 BESF	
Inflation	3.0 - 5.0	3.0 - 5.0	3.2
364-day T-bill rate [1/]	3.0 - 5.0	2.5 - 4.5	2.0
Exchange Rate *(PhP/USD, period average)*	42.00 - 45.00	42.00 - 45.00	42.23
LIBOR (6 months)	0.5 - 1.5	0.4 - 1.4	0.7
Dubai crude oil price *(USD/barrel)*	90.00 - 110.00	90.00 - 110.00	109.24
Merchandise exports growth [2/]	12.0	10.0	8.5
Merchandise imports growth [2/]	18.0	12.0	5.1

1/ Based on primary market rates
2/ Based on the Balance of Payments Manual 5 (BPM5) concept

The sluggish performance of the global economy dampened the demand for the country's products and led to the lower-than-expected growth of the country's exports and imports in 2012. Merchandise exports in 2012 grew by 8.5 percent, below the government assumption for exports growth of 12.0 percent for the year. The sub-par expansion was due mainly to reduced demand for electronics exports, which accounts for about half of the country's total exports. Meanwhile, merchandise imports posted a modest growth of 5.1 percent, lower than the government assumption for imports growth of 18.0 percent, due primarily to the lower imports of raw materials and accessories for manufacture of electronics equipment (inputs to electronic exports), and reduced imports of capital goods (i.e., land transportation equipment, and power generating and specialized machines).

b. Fiscal Performance

Along this upbeat macroeconomic backdrop, a healthier consolidated public sector fiscal performance also registered in 2012 as the consolidated public sector deficit (CPSD) declined by 0.3 percentage point from 1.8 percent of GDP in 2011 to 1.5 percent in 2012. This improvement in the CPSD is largely explained by the improved performance of Social Security Institutions (SSIs) and Local Government Units (LGUs), each posted surpluses higher than the previous year by 51.6 percent and 112.1 percent, respectively. Similarly, corporations cut their deficit by more than three-fourths due to governance reforms. Programs and projects of Government Owned and Controlled Corporations (GOCCs) were kept within their respective mandates as they rationalize their operations and investments.

Table 3. Consolidated Public Sector Financial Position, 2011-2012
(in billion pesos, unless otherwise indicated)

Particulars	Levels			As Percent of GDP	
	2011 Actual	2012 Actual	Growth %	2011 Actual	2012 Actual
Public Sector Borrowing Requirement	*(220.1)*	*(224.0)*	*1.8*	*(2.3)*	*(2.1)*
National Government	(197.8)	(242.8)	22.8	(2.0)	(2.3)
CB Restructuring	(3.5)	(3.5)	(0.8)	(0.0)	(0.0)
Monitored Government-Owned and Controlled Corporations (GOCCs)	(19.8)	(4.9)	(75.3)	(0.2)	(0.0)
Adjustment in Net lending and Equity to GOCCs	1.0	27.2	2,569.3	0.0	0.3
Other Public Sector Position	*45.0*	*60.7*	*34.9*	*0.5*	*0.6*
Social Security Institutions (SSS/GSIS/PHIC)	48.0	72.7	51.6	0.5	0.7
Bangko Sentral ng Pilipinas	(47.4)	(94.8)	100.0	(0.5)	(0.9)
Government Financial Institutions (GFIs)	9.8	9.3	(5.0)	0.1	0.1
Local Government Units (LGUs)	34.7	73.6	112.1	0.4	0.7
Timing Adjustment of Interest Payments to BSP	0.0	0.0		-	-
Other Adjustments	0.0	(0.1)		-	(0.0)
Consolidated Public Sector Surplus/Deficit	(175.1)	(163.3)	(6.7)	(1.8)	(1.5)
Memo Items:					
Nominal GDP				*9,706.3*	*10,564.9*

Source: DOF, FY 2014 BESF

On the other hand, the National Government (NG) deficit in 2012 stood higher at P242.8 billion than the 2011 level of P197.8 billion. The deficit-to-GDP ratio increased from 2.0 percent in 2011 to 2.3 percent in 2012 largely due to disbursements expanding by 14.1 percent intended for increased funding of social programs and infrastructure projects. Against this increase in spending, revenues grew by 12.9 percent year-on-year.

c. Revenue Performance

In 2012, total revenues amounted to P1,534.9 billion, with tax revenues as main contributor to the robust collections, accounting for 88.7 percent of the collections.

Tax revenues reached P1,361.1 billion, recording an increase of 13.2 percent year-on-year; but lower than the target collection. Tax effort improved and registered at 12.9 percent due to collection increases of the Bureau of Internal Revenue (BIR), the Bureau of Customs (BOC), and other offices.

Table 4. National Government Revenue Performance
(in billion pesos, unless otherwise indicated)

Particulars	2011	2012			Growth
	Actual	Program	Actual	% Deviation	
Total Revenues	1,359.9	1,560.6	1,534.9	(1.6%)	12.9%
Tax Revenues	1,202.1	1,427.4	1,361.1	(4.6%)	13.2%
Tax Effort (%)	*12.4*	*13.3*	*12.9*		
BIR	924.1	1,066.1	1,057.9	(0.8%)	14.5%
BOC	265.1	347.1	289.9	(16.5%)	9.3%
Other Offices	12.8	14.2	13.3	(6.6%)	3.7%
Non-Tax Revenues	156.9	131.2	165.5	26.2%	5.5%
BTr Income	75.2	61.8	84.1	36.2%	11.8%
Others	81.5	69.4	81.3	17.1%	(0.2%)
Grants	0.3	0.0	0.1	n/a	(61.2%)
Privatization	0.9	2.0	8.3	317.4%	797.6%
Disbursements	1,557.7	1,839.7	1,777.8	(3.4%)	14.1%
Surplus/(Deficit)	(197.8)	(279.1)	(242.8)	(13.0%)	22.8%
% of GDP	*(2.0%)*	*(2.6%)*	*(2.3%)*		

BIR collections, which account for about 89 percent of total taxes grew by 14.5 percent year-on-year but fell short of the target by P8.2 billion or 0.8 percent, due mainly to negative effects of the calamities. The improved collection performance was attributed to the Bureau's implementation of stricter tax programs like the Run After Tax Evaders (RATE) program and the enhancement of tax payment system.

Total collections of BOC amounted to P289.9 billion. This is 9.3 percent or P24.8 billion higher than the previous year, though lower by P57.2 billion or 16.5 percent than the target set for 2012. The increase for the year's collections is attributed to the installation of enhanced customs IT equipment (i.e., X-ray Inspection Project) and the pursuit of anti-smuggling program (Run After The Smugglers or RATS). Aside from collecting revenues, BOC filed 60 cases in connection with the smuggling of goods worth P1.3 billion, confiscated illegal drugs and chemicals amounting to P462.7 million, and uncovered a number of anomalies.

Other tax collecting agencies, specifically the Land Transportation Office (LTO) and the Bureau of Immigration (BI), posted P13.3 billion revenues which grew by 3.8 percent but lower than the program by P1.0 billion.

Non-tax revenues totaled P165.5 billion, higher than the program by P34.3 billion or 26.2 percent. The Bureau of the Treasury (BTr) registered an income of P84.1 billion coming from interest on deposits, investments, dividends, and other miscellaneous income. BTr income grew by 11.8 percent and was higher than the program by P22.3 billion on account of the 89 percent and 61 percent increases on dividends and interest income from the bond sinking fund, respectively.

A total of P81.3 billion was collected from other non-tax revenue resources. Of this amount, P27.8 billion came from fees and charges, while government royalties from Malampaya reached P29.1 billion.

Income from privatization amounted to P8.3 billion following the successful privatization of the Food Terminal Inc. (FTI) in August 2012.

BIR and BOC Collections in 2012

The taxes on income accounted for 60.7 percent of total BIR collections, while 21.7 percent came from the Value-Added Tax (VAT). Excise taxes accounted for 6.8 percent. All BIR tax categories except excise taxes, recorded double digit increases from 2011 with VAT collections up by 25.4 percent.

Table 5. BIR Collection Performance
(in billion pesos, unless otherwise indicated)

Particulars	2011 Actual	2012 Actual	% Growth	2012 % Distribution
Total Collections	924.2	1,057.9	14.5%	100.0%
Income Taxes	571.9	642.5	12.3%	60.7%
Excise Taxes	68.0	72.3	6.3%	6.8%
Value-Added Tax	183.1	229.6	25.4%	21.7%
Percentage Taxes	47.0	52.6	11.9%	5.0%
Other Taxes	54.2	60.9	12.4%	5.8%

Import taxes, comprising of VAT and excise tax, accounted for 85.0 percent of BOC's collections. Specifically, the VAT on non-oil goods collected for the year amounted to P149.8 billion, registering an annual growth of 10.3 percent. The implementation of various Free Trade Agreements (FTAs) resulted in lower import duties collected. Import duties registered a contraction of 2.8 percent year-on-year.

Table 6. BOC Collection Performance
(in billion pesos, unless otherwise indicated)

Particulars	2011 Actual	2012 Actual	% Growth	2012 % Distribution
Total Collection	265.1	289.9	9.3%	100.0%
Import Duties	44.9	43.6	(2.8%)	15.0%
Import Tax	220.3	246.3	11.8%	85.0%
VAT	200.2	220.8	10.3%	76.2%
Non-Oil	135.8	149.8	10.3%	51.7%
Oil	64.4	71.0	10.1%	24.5%
Excise Tax	20	25.5	27.4%	8.8%

d. Disbursement Performance

As earlier mentioned, NG disbursements for 2012 registered at P1,777.8 billion, up by 14.1 percent from the P1,557.7 billion recorded in 2011. Aside from the measures discussed above, the improvement also comes at the back of the closer monitoring of the financial and physical performance of major departments through the Account Management Teams (AMTs). These AMTs were created in April 2012 as a response to the significant underspending recorded in the first quarter of 2012. The teams are composed of representatives from the planning and finance offices of the eight (8) major departments, namely: DA, DAR, DENR, DepEd, DOH, DOTC, DPWH and DSWD, and their DBM counterparts. They closely monitor agency performance, including the review of existing processes, identification of problems/issues and formulation of immediate, short- and medium-term solutions to address the programming and implementation bottlenecks.

As a result of the strengthened monitoring of program/project implementation, the absorptive capacities of departments/agencies improved towards the end of the year. The higher-than-program performance at the last quarter cut by more than 50 percent the underspending recorded in the first three quarters of 2012. In December alone, disbursements grew by 14.4 percent year-on-year and reached a monthly record high of P242.1 billion.

Table 7. National Government Disbursement Performance
(in billion pesos, unless otherwise indicated)

Particulars	2011 Actual	2012				2011 vs. 2012 Inc./(Dec.)	
		Program	Actual	Deviation			
				Amount	Percent	Amount	Percent
CURRENT OPERATING EXP.	**1,289.5**	**1,442.6**	**1,411.1**	**(31.5)**	**(2.2)**	**121.5**	**9.4**
Personnel Services	500.4	585.7	542.6	(43.1)	(7.4)	42.2	8.4
MOOE	201.2	254.6	256.7	2.2	0.9	55.5	27.6
Subsidy	45.8	31.8	42.1	10.4	32.7	(3.6)	(7.9)
Allotment to LGUs	229.6	218.6	218.6	-	-	(10.9)	(4.8)
Interest Payments	279.0	317.7	312.8	(4.9)	(1.5)	33.8	12.1
Tax Expenditures	33.5	34.2	38.1	3.9	11.3	4.5	13.6
CAPITAL OUTLAYS	**250.1**	**374.2**	**339.3**	**(34.9)**	**(9.3)**	**89.2**	**35.6**
Infrastructure/Other CO	159.1	298.2	250.8	(47.5)	(15.9)	91.7	57.7
Equity	12.9	2.1	21.3	19.3	926.0	8.5	65.6
Capital Transfers to LGUs	70.3	71.3	67.2	(4.2)	(5.8)	(3.1)	(4.4)
CARP - LO Compensation	7.9	2.5	-	(2.5)	(100.0)	(7.9)	(100.0)
NET LENDING	**18.1**	**23.0**	**27.4**	**4.4**	**19.2**	**9.4**	**51.9**
GRAND TOTAL	**1,557.7**	**1,839.7**	**1,777.8**	**(62.0)**	**(3.4)**	**220.1**	**14.1**

Program vs. Actual

As disbursements picked up towards the end of the fourth quarter, underspending was reduced to 3.4 percent (P62.0 billion) by year end from the 9.6 percent (P130.3 billion) recorded as of September 2012.

However, the underspending that was recorded in the earlier months of 2012 was large enough to drag down disbursements performance below program. The bulk of the underspending came from infrastructure and other

Capital Outlays (CO) and personnel services (PS) which fell 15.9 percent and 7.4 percent below program levels, respectively.

The slow obligation and disbursements of funds for major programs and projects during the first three quarters contributed to the lower-than-programmed disbursements in infrastructure and other CO. For instance, low absorption rate for DPWH was recorded in earlier months before closing in to 80.0 percent[2] as of end year. In addition, obligations for major projects under the DPWH were lower than expected due to project implementation problems arising from the scarcity of materials, right-of-way acquisition, frequent realignment of funds or modification of projects, peace and order situation, and unpredictable weather conditions, among others. On the other hand, the low obligation of funds for airports and air navigational facilities and PPP projects of the DOTC was due to procurement delays as well as preparedness or capacity issues. Other factors that accounted for the underspending in CO included the low obligation rate for various DA programs such as farm-to-market roads, some foreign-assisted projects and various irrigation projects; and the unreleased appropriations for lump sum requirements of Basic Education Facilities (BEF) under the DepEd (P1.2 billion), and for the modernization of 25 regional hospitals (P3.0 billion) due to the delay in the approval of the DOH PPP.

Nonetheless, the performance of these departments had notably improved when compared to 2011 based on bank reports[3]. DA and DPWH for instance, recorded 91 percent and 80 percent NCA utilization ratios, respectively, compared to 78 percent and 77 percent in 2011.[4] The improvement is credited to the implementation of measures identified through the AMTs such as: a) formulation and execution of catch-up plans; b) thorough review of plans and work programs; c) expedited processing of ROW acquisition documents in the case of DPWH; and d) closer monitoring of program/project implementation, including conduct of mid-year and end-year financial and performance review.

Below-programmed spending in PS is mainly accounted for by the unreleased balances under the Miscellaneous Personnel Benefits Fund (MPBF) intended for the creation of new positions, filling-up of unfilled positions and other PS deficiencies. Moreover, savings were generated from Interest Payments (IP) in view of the combined effects of lower actual interest rates (2.0 percent compared to the 3.0 percent program) and the lower-than-programmed volume of T-bill issuances (P143.7 billion outturn vs. P639.0 billion planned) which hiked the underspending further by about P4.9 billion.

On the other hand, disbursements for the following expenditure items buoyed government spending and help trimmed down the underspending for 2012:

- The support to GOCCs increased compared to program, with Subsidy releases reaching P42.1 billion and Equity contributions at P21.3 billion. Both were higher than program levels by 32.7 percent and 926.1 percent, respectively. Among the subsidy releases triggering the increase are the releases for the Government Service Insurance System to cover the Educational Fund of members' beneficiaries (P1.5 billion), the Metropolitan

[2] MDS-GSBs Report as of 31 December 2012
[3] MDS-GSBs Report as of 31 December 2012
[4] MDS-GSBs Report as of 31 December 2011

Waterworks and Sewerage System for the Angat Dam rehabilitation (P1.8 billion), the operational requirements of National Food Authority (P7.7 billion), the sitio electrification projects of National Electrification Administration (P5.0 billion), and the government subsidy for health insurance premium of the indigents under the Philippine Health Insurance Corporation (P14.1 billion). On the other hand, the spike in equity releases is mainly attributed to the P20 billion equity infusion to BSP.

- Net lending stood at P27.4 billion, exceeding the program by P4.4 billion or 19.2 percent largely due to advances made to the Power Sector Assets and Liabilities Management Corporation (PSALM) to cover its maturing debt and obligations.

Year-on-Year

The spending for 2012 rebounded from the modest growth in disbursement performance in the previous year, improving by 14.1 percent compared to the 2.3 percent growth recorded in 2011. The drivers of this two-digit growth are increased allocation for PS and expansion in MOOE, infrastructure and other CO, and IP.

- PS grew by P42.2 billion or 8.4 percent to P542.6 billion mainly on account of the implementation of the last tranche of SSL III starting July 2012 and the requirements for the filling-up of vacant positions in the DILG and DepEd. The releases for retirement gratuity and terminal leave claims surpassed that of the previous year by almost P6.0 billion due to the increase in the number of retiring personnel, including those who separated from service and availed of the incentives under the Rationalization Program and under E.O. No. 77. The number of total retirees reached 87,986 at the end of December 2012, compared to 27,528 personnel in the previous year. The government also remitted P3.5 billion to GSIS as initial payment of the prior year's retirement premium of DepEd employees.

- Maintenance expenditures increased by almost P55.5 billion or 28.0 percent, mainly to cover the expansion of social protection programs and other banner programs of major departments. The government stepped up the implementation of these programs and made significant releases for the 4Ps (P43.2 billon) and the Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services Program or KALAHI-CIDSS (P1.3 billion) under the DSWD. Some P12.1 billion was also released to fund various preparation activities of the COMELEC for the 2013 National Elections, including the purchase of the Smartmatic Automated Elections System. Spending for the Cadastral Survey and National Greening Program of the DENR also increased this year where more than P2.0 billion of their respective allotments was released.

- Most notably however, infrastructure and other capital spending rallied to reach P250.8 billion, up by P91.7 billion or 57.7 percent from last year's level of P159.1 billion. The government poured huge investments to finance country-wide infrastructure development such as roads and bridges rehabilitation/construction, enhancement of tourism access, as well as irrigation projects in support of the agriculture sector.

- Interest Payments amounted to P312.8 billion this year from last year's outturn of P279.0 billion primarily to cover the semi-annual interest payments due on bonds issued last January, 2012 and the higher volume of bond swaps. In terms of its share to total disbursements, however, IP went down to 17.6 percent this year compared to 17.9 percent in 2011.

e. Financing and Debt

The national government raised a total of P955.1 billion through its borrowing operations. Of this amount, P417.0 billion was used to refinance maturing obligations; P242.8 billion was used to fund the deficit; and another P3.6 billion for off-budget operations, resulting to a net increase in cash of P291.8 billion.

The government favoured domestic sources of financing, achieving an 84%-16% financing mix compared to its 75%-25% program as it continued to reduce the reliance on foreign currency debt. Of the total gross borrowings, only P156.6 billion came from offshore lenders as foreign borrowings were held back in light of mounting capital inflows and the associated cost of sterilization to the BSP.

On the domestic side, the government raised P798.5 billion through its issuance of government securities. Domestic financing was expanded in line with government efforts to lock-in favorable rates prevailing in the market.

Table 8. National Government Financing
(in million pesos, unless otherwise indicated)

Particulars	Full Year 2012			
	Program	Actual	Difference	%
Financing	288,853	538,172	249,319	86%
External (Net)	105,167	70,046	(35,121)	(33%)
External (Gross)	168,741	156,620	(12,121)	(7%)
Less: Amortization	63,574	86,574	23,000	36%
Domestic (Net)	183,686	468,126	284,440	155%
Domestic (Gross)	500,075	798,527	298,452	60%
Less: Amortization	316,389	330,401	14,012	4%
Financing Mix (% of total)				
External	*25%*	*16%*		
Domestic	*75%*	*84%*		

Source: DBCC, BTr

Total Philippine NG debt grew 9.8 percent year-on-year to P5,437.1 billion as of end-December 2012. Taking cue from its financing operations, the growth in NG debt was driven by the expansion in domestic obligations. The NG domestic debt grew by 20.7 percent vis-à-vis the 5.3 percent contraction in external debt allowing for a 64%-36% breakdown between domestic and foreign debt over the 58%-42% split in the previous year. The further shift in the composition of NG debt bolsters its resiliency against external shocks while supporting domestic liquidity management.

Table 9. National Government Debt
(in million pesos, unless otherwise indicated)

Particulars	2011 Actual	2012 Actual	Growth (Amount)	Growth (%)
Total	4,951,188	5,437,104	485,916	9.8
External	2,077,831	1,968,729	(109,102)	(5.3)
Domestic	2,873,357	3,468,375	595,018	20.7
Percent of Total (%)				
External	42.0	36.2		
Domestic	58.0	63.8		
Percent of GDP (%)	51.0	51.5		
External	21.4	18.6		
Domestic	29.6	32.8		
Average Interest (%)				
External	5.01	4.96		
Domestic	6.84	6.47		
Average Maturity (years)	10.18	10.87		
External	10.8	10.96		
Domestic	9.21	10.44		
Memo Items:				
GDP	*9,706,268*	*10,564,886*		
Peso/USD	*43.95*	*41.1*		

Source: BTr

The NG debt indicators above highlight the heightened sustainability through the prudent liability management efforts of the government. NG debt continues to be broadly sustainable in proportion to GDP levels in 2012. The slight increase in the NG debt-to-GDP ratio in 2012 is in light of front-loading borrowing operations to take advantage of favourable market conditions which is expected to improve in 2013. Furthermore, proactive liability management has allowed for the lengthening of the maturity profile alongside a reduction in borrowing costs. On a residual basis, the average maturity for the government's debt portfolio had risen to 10.87 years by end-2012 from 10.18 years in 2011. This is marked by the lengthening of maturities in both external (10.96 years) and domestic (10.44 years) debt. This was accompanied by a simultaneous reduction in average interest rates for foreign (4.96 percent) and domestic (6.47 percent) debt as the government moved to take advantage of the low interest environment and positive investment outlook for the economy.

III. The National Government Expenditure Performance (Obligation Basis)

On an obligation basis, the programmed ceiling on the allotment releases[5] that can be issued from all sources, is P1,816.0 billion. This is 14.9 percent higher than the actual obligations in 2011 which amounted to P1,580.0 billion.

Table 10. Status of the FY 2012 Budget
(in billion pesos, unless otherwise indicated)

Particulars	Program	Releases: Amount		Releases: % of Program	Balance	
New GAA (R.A. No. 10155)	1,092.4	1,056.5	a/	96.7%	35.8	
Departments	867.2	854.2		98.5%	12.9	c/
Personnel Services	429.6	429.6		100.0%	-	
MOOE	227.8	225.4		98.9%	2.4	
Capital Outlays	209.7	199.2		95.0%	10.5	
Special Purpose Funds (SPFs)	214.7	202.3		94.2%	12.4	c/
Pooled Savings	10.5			0.0%	10.5	d/
Automatic Appropriations	723.6	698.2		96.5%	25.4	
Other Releases	-	61.2	b/		(61.2)	
Continuing Appropriations		27.0			(27.0)	
Unprogrammed Fund		20.6			(20.6)	
Other Automatic Appropriations		13.6			(13.6)	
ORIGINAL PROGRAM	1,816.0	1,816.0		100.0%	-	
ADDITIONAL PROGRAM	57.0	57.0			-	
Unprogrammed Fund	55.5	55.5			-	
Tax Expenditure Fund	1.5	1.5			-	
TOTAL	1,873.0	1,873.0		100.0%	-	

a/ Include P46.0 billion additional releases to departments/SPFs which were sourced from 2012 pooled savings of P56.5 billion
b/ Other releases accommodated within the 2012 Expenditure Program
c/ Unreleased balances for departments and SPFs, available for release in 2013 as continuing appropriations
d/ Balance of 2012 pooled savings (P56.5 billion less P46.0 billion per footnote a)

Source: DBM - Budget Technical Service

Table 10 shows that the original expenditure program for 2012 of P1,816.0 billion was exceeded by P57.0 billion, thus the adjusted program of P1,873.0 billion. The adjustments were accounted for by the P55.5 billion release for the Debt Management Program of the PSALM which was charged against the Unprogrammed Fund, as well as for the automatically-appropriated tax expenditure subsidies in the amount of P1.5 billion. One hundred percent of this obligation program were released by 31 December 2012, capturing releases from all sources - New General Appropriations, Automatic Appropriations, Continuing Appropriations and the Unprogrammed Fund. The DBM issued almost 98.5 percent of the total budget of the departments and agencies; 94.2 percent of the Special Purpose Funds (SPFs); and 96.5 percent of the Automatic Appropriations, with bulk for interest payments and the Internal Revenue Allotment amounting to P586.1 billion combined.

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

Among the big-ticket items under department-specific budgets that were funded in 2012 are as follows: 1) DPWH - Various infrastructure projects such as roads, bridges, flood control projects, etc. - P107.9 billion; 2) DSWD's 4Ps - P43.2 billion; 3) DA's farm-to-market roads and irrigation projects - P26.1 billion; 4) NG subsidy for the health insurance premium of indigent families enrolled in the National Health Insurance Program of the PHIC - P13.9 billion; 5) preparatory activities for the 2013 automated national and local elections - P12.1 billion; 6) DA - development of the crops sector - P10.3 billion; 7) Comprehensive Agrarian Reform Program by DAR - P9.6 billion; 8) DepEd's Basic Educational Facilities - P7.8 billion; 9) Government Assistance to Students and Teachers in Private Education, also by the DepEd - P6.3 billion; and 10) DOH's Health Facilities Enhancement Program - P5.4 billion.

Obligations

From these allotment releases, departments/agencies, GOCCs and LGUs were able to enter into or fulfill contracts/commitments with its personnel, contractors, suppliers, creditors, etc. for the implementation of their programs and projects. Of the total obligation program and total allotment releases of P1,873.0 billion, obligations incurred by the national government reached P1,829.0 billion[6], recording an average obligation rate of 97.6 percent. This is better than the 96.0 percent obligation rate in 2011, which indicates a faster pace of fund absorption by the departments/agencies for the implementation of their programs and projects.

Table 11. Enacted vs. Actual Expenditures, By Sector
(in billion pesos, unless otherwise indicated)

Expenditures by Sector	Levels			Obligations as % of GDP	% Distribution of Obligations
	Program (GAA) a/	Actual Obligations b/	Obligation Rate (%)		
Economic Services c/	496.0	490.2	98.8	4.6	26.8
Social Services	613.4	592.2	96.5	5.6	32.4
Defense	87.2	74.4	85.3	0.7	4.1
General Public Services	320.3	332.0	103.6	3.1	18.2
Net Lending	23.0	27.4	119.2	0.3	1.5
Interest Payments	333.1	312.8	93.9	3.0	17.1
TOTAL	1,873.0	1,829.0	97.6	17.3	100.0

a/ Based on "2012 Adjusted" levels reflected in the FY 2013 Budget of Expenditures and Sources of Financing
b/ Based on "2012 Actual" levels reflected in the FY 2014 Budget of Expenditures and Sources of Financing
c/ Includes additional program from the Unprogrammed Fund and TEF as shown in Table 10

Before going to the details of the financial performance of selected departments, Table 11 shows the more general performance by sector. This compares the enacted levels under the GAA with the actual obligations as reported by the departments/agencies. As the premier sector, representing one-third of the total budget, the Social Services Sector was provided with the biggest funding support of P613.4 billion and the sector performed reasonably well in terms of absorptive capacity, registering obligations that are 96.5 percent of the programmed budget. The key services under this sector are education, culture and manpower development; health; social security, welfare and employment; and housing and community development. Likewise, the departments/agencies

[6] Based on actual obligations as reflected in the FY 2014 Budget of Expenditures and Sources of Financing (BESF)

under the Economic Services Sector obligated 98.8 percent of the program. The subsectors that largely contributed to this outturn were agriculture and agrarian reform; power and energy; and communication, roads and other transport. The excess in the net lending program was as explained above due to the advances given to PSALM while agencies and GOCCs under the General Public Services had more-than-projected releases from Special Purpose Funds. It is important to note however, that these obligation levels include those commitments executed in 2012 under the 2011 Continuing Appropriations or the unobligated allotments and appropriations as of December 31, 2011, both of which were still valid for obligation in 2012 given the two-year validity of MOOE and CO appropriations.

Financial and Physical Performance of Selected Major Programs and Projects, By Department, As of 31 December 2012

Table 12. Enacted vs. Actual Expenditures, Selected Departments (including AMTs)
(in billion pesos, unless otherwise indicated)

Department	FY 2012 Adjusted Appropriations 1/	As of 31 December 2012		
		Allotments Received 2/	Obligations Incurred 3/	Obligation Rate (%) 4/
Agrarian Reform	19.0	19.0	12.4	65.4
Agriculture	66.7	62.2	56.7	91.1
Education	268.3	268.3	240.6	89.7
Energy	9.7	2.6	1.8	67.1
Environment and Natural Resources	21.6	20.5	17.3	84.3
Health	42.0	39.1	35.4	90.5
Public Works and Highways	207.5	205.7	157.6	76.6
Science and Technology	11.9	11.9	10.3	86.8
Social Welfare and Development	59.7	59.7	55.8	93.4
Transportation and Communications	44.1	35.5	20.0	56.3

1/ FY 2012 Adjusted Appropriations pertain to the following: 1) FY 2012 Budget including the Department-Specific Budget, releases to the Department charged against the Special Purpose Funds and Automatic Appropriations; 2) FY 2011 Continuing Appropriations that were released in 2012; and 3) Unobligated allotments as of 31 December 2011, which are still valid for obligation until end-2012

2/ Allotments received by the Departments charged against the following: 1) FY 2012 Budget including the Department-Specific Budget, Special Purpose Funds and Automatic Appropriations; 2) FY 2011 Continuing Appropriations; and 3) Unobligated allotments as of 31 December 2011, which are still valid for obligation until end-2012

3/ Obligations incurred by Departments in 2012 as reported in the FY 2014 BESF

4/ Ratio of obligations incurred and allotments received by Departments - measure of absorptive capacity

Department of Education

- As an essential part of human development investment, allotments for basic education were increased to P268.3 billion in 2012, higher by 13.4 percent or P31.8 billion than its year ago level. This increase is primarily to support the implementation of Republic Act No. 10157 (Kindergarten Act) and to address the backlogs in the educational inputs, namely, classrooms, teachers, school furniture and textbooks. In 2012, the PPP scheme was also initiated by DepEd to facilitate the construction of additional school buildings.

- *Financial Performance.* As of 31 December 2012, DepEd's obligation stood at P240.6 billion or 89.7 percent of the total allotment releases. About 84.5 percent of the said obligation was mainly accounted for by basic salaries, allowances, incentives and contributions to retirement and life insurance benefits of teaching, teaching-related and non-teaching personnel. Around 9.8 percent of the DepED's total obligation was for MOOE, the bulk of which covered the provision for the universalization of kindergarten education, cash grants, and procurement of textbooks. Meanwhile the remaining 5.7 percent represented the contracted amount for the implementation of the basic education facilities.

- *Physical Accomplishment of Major Programs/Projects.* In terms of implementation, a total of 6,802 classrooms or 82 percent of the FY 2012 target, chargeable against the Basic Education Facilities Fund was bidded out. Of the said target, 22 percent was fully constructed, with the remaining 60 percent to be completed by 2013. The repair and rehabilitation of 6,707 classrooms supported out of the 2012 funds are still currently being done. One reason cited for the partial completion of the target school buildings is the fact that the academic year not coinciding with the fiscal year. Moreover, aside from the regular funds, the Schoolbuilding Program was augmented by other sources such as the Special Education Fund (SEF) and the private sector.

  Meanwhile, some 7,545 water and sanitation facilities were constructed while the remaining 2,381 units are still on-going. The actual accomplishment for water and sanitation facilities fell short by 46 percent as compared to the 2012 target of 18,298 structures.

  With regard to the school furniture component, around 1.2 million or 90 percent of the target school desks and chairs were procured, of which 503,060 were delivered.

  Of the 16,000 approved teaching and teaching-related items, a total of 15,863 positions or 99 percent were filled up to comply with the requirements for the mandatory kindergarten education as well as to address the teacher shortage.

  With the provision of textbooks and teachers' manuals, DepEd has exceeded its target of 25.8 million learning materials, by 142 percent or 36.7 million learning materials.

  On the Government Assistance to Students and Teachers in Private Education (GASTPE), only 82 percent or 761,314 students benefitted from the program. The partial availment of the grant was attributed to high tuition fees and other socioeconomic factors. This meant that parents who sent their children to private schools and availed of GASTPE had to shoulder the "top up expenses" in excess of the P10,000 grant per student in all the regions except in NCR where P15,000 grant was provided.

  Under the Universalization of Kindergarten Program, a total of 1,773,492 kindergarten learners enrolled for School Year 2012 – 2013. This represents 103.6 percent of the 1,711,683 target for the year.

Department of Health

- *Financial Performance.* As the frontrunner for affordable and quality health services delivery for Filipinos through the Universal Health Care Program, the DOH reported an obligation of P35.4 billion or 90.4 percent of its total allotment of P39.1 billion received in 2012. Of the total obligated amount, a sizeable subsidy of P13.9 billion covered the health insurance premiums of indigent families being implemented by the PHIC.

  Likewise, major spending for the Health Facilities Enhancement Program (HFEP) amounted to P5.1 billion. The amount was utilized for the upgrading of health facilities nationwide.

  Another budgetary provision of P1.8 billion was spent for the Expanded Program on Immunization. Through this program, all children aged less than five years old were given immunization and provided with vitamins and mineral supplements.

  Moreover, the DOH was allocated with P1.7 billion for the Family Health and Primary Health Care Programs. Under this, the Family Health Program included family planning services, commodities (i.e. pills, contraceptives) and counselling, especially for mothers and women of reproductive age. The Primary Health Care Program on the other hand, focused on the elimination and control of communicable diseases such as tuberculosis and malaria.

  Meanwhile, the Doctors to the Barrios Program incurred an obligation of P359 million to provide for Pinoy MD Scholars. This program serves as the government's response to the needs of doctorless and single-doctor communities in the countryside. Often, these refer to far-flung areas (e.g. mountain barangays) where patients seeking medical attention travel long hours to get to the nearest health facility. The doctors sent to these areas are mostly graduates of the Pinoy MD Scholarship Program, wherein scholars must render two years of service to government health facilities, thus addressing staffing complement problems in rural areas.

- *Physical Accomplishment of Major Programs/Projects.* The PHIC was able to cover 94 percent of its target, representing 4.95 million families covered by health insurance, out of the target 5.26 million families for 2012. Meanwhile, the implementation of the Doctors to the Barrios Program in 2012 has deployed an average of 148 doctors and 10,267 nurses.

Department of Social Welfare and Development

- To protect the poor and vulnerable sector of the society, continuous support was provided by the government thru the various social protection programs, such as the: 1) 4Ps; 2) Social Pension for Indigent Senior Citizens; 3) KALAHI-CIDSS; and 4) Supplemental Feeding Program. Total allotments for the said programs amounted to P59.7 billion in 2012.

- *Financial Performance.* As of 31 December 2012, DSWD had obligated 93.5 percent or P55.8 billion of its total allotments. Based on DSWD's financial report, 95.8 percent of the total allotment releases for 4Ps, Supplemental Feeding Program and Social Pension for Indigent Filipino Senior Citizens had been obligated. Meanwhile, KALAHI-CIDSS posted a lower fund absorption of 68.7 percent due to the delayed implementation of community development projects.

- *Physical Accomplishment of Major Programs/Projects.* In general, the 2012 physical targets of the social protection programs had been achieved. For the said year, DSWD had covered 3.1 million target Conditional Cash Transfer (CCT) beneficiaries under the 4Ps. These cash transfers had been made to support basic health, nutrition and educational needs of the beneficiary families.

  With regard to the Social Pension for Indigent Senior Citizens, 181,001 or 97.4 percent of the targeted pensioners had received their monthly stipend of P500. This is in compliance with Republic Act No. 9994 or the Expanded Senior Citizens Act of 2010.

  Of the 1.8 million Day Care children, only 88.4 percent had benefited from the Supplemental Feeding Program. This is mainly attributed to the school year basis of the Program's implementation. Hence, the remaining beneficiaries are expected to receive the same assistance in 2013. Also, the late submission of liquidation papers by LGUs and slow bidding process were cited for the delayed program implementation in several areas.

  Under the KALAHI-CIDSS, a total of 1,615 community development projects were completed, representing an 88.3 percent accomplishment. As a result, 400,627 household beneficiaries have been empowered through the active and direct participation in the completion of the projects. The partial completion of community development projects was attributed to the delayed LGU-counterpart contribution to the projects, such as provision of monetary and manpower assistance.

Department of Public Works and Highways

- At present, the total national road network asset is valued around P1.2 trillion. The road network provides connectivity for various economic and social activities of the country. Thus, the road network is an important factor in sustaining economic growth , reducing inequality and uplifting global competitiveness. The DPWH is tasked to achieve 'good' condition of all national arterial roads by 2014 and to do the same for national secondary roads by 2016.

- *Financial Performance.* Of the P205.7 billion available allotment[7] for DPWH, around P157.6 or 76.6 percent was obligated as of 31 December 2012.

- *Physical Accomplishment of Major Programs/Projects.* For the current year appropriation, some 2,946 roads, highways and bridges projects were programmed to be implemented. As of 31 December 2012, 2,101 projects were completed while 558 projects are being implemented, which includes asset preservation, network development, road upgrading, among others. As of 31 October 2012, 14,476 kms. national arterial roads were paved or 90

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

percent of the total national arterial road network, while 10,968 kms. or 71 percent of national secondary roads were paved.

As part of DPWH adaptation to climate change, some 1,258 flood control and drainage projects were programmed as part of the 2012 budget. Out of this programmed projects, about 623 projects were completed while 374 projects were carried over to 2013.

Department of Transportation and Communications

- The DOTC is the arm of the Executive Branch responsible for the primary policy, planning, programming, coordinating, implementing and administration on the promotion, development and regulation of a dependable and coordinated network of transportation and communications systems. It also ensures that transportation and communication services is fast, safe, efficient and reliable. The bulk of the department's budget for the year was allocated to the construction and improvement of various land, air, and sea transportation facilities.

- *Financial Performance.* Of the P35.5 billion available allotment[8] for DOTC, about 56.3 percent of the allotments was obligated as of 31 December 2012.

- *Physical Accomplishment of Major Programs/Projects.* The bulk of the obligation made during the year was for the MRT 3 Operation and Maintenance (P1.2 billion), and the Subsidy for Mass Transport (P5.0 billion). Big-ticket projects of the department were in various stages of procurement and were not obligated until end-2012. Among these projects are the LRT Line 1 South Extension and Privatization, and the MRT/LRT Common Ticketing Project. Meanwhile, some of the projects of the department have been bidded out and were implemented including the New Legaspi Airport Development Project and the Puerto Princesa Airport Development.

Department of Energy

- One of the main factors for continued economic development and poverty alleviation is sustainable energy. The DOE aims to steer the nation towards achieving sustainable energy with its 2012-2030 Philippine Energy Plan.

- *Financial Performance.* Of the P2.6 billion allotment released for the department (including continuing allotment), around P1.8 billion or 67.1 percent was obligated.

- *Physical Accomplishment of Major Programs/Projects*. Out of the total obligations for the department, around P704 million was for the Philippine Energy Efficiency Project (PEEP). Among the milestones for the year include the retrofitting of six (6) government buildings of set of lighting fixtures complete with lamps, electronic ballast and luminaries and other lighting accessories; the supply and distribution to residential houses of 8.6 million compact fluorescent lamps (CFLs) and 223 photovoltaic solar home systems; the retrofitting of some 314 parklights and streetlights in Baguio and Cagayan

[8] Ibid.

De Oro; and the installation of about 159 intersections LED traffic lights in Metro Manila.

Department of Agrarian Reform

- *Financial Performance.* In 2012, DAR reported an obligation of P12.4 billion, or 65.4 percent of its total allotment of P19.0 billion.

  Its major project, the *PAyapa at MAsaganang PamayaNAn* in Agrarian Reform Areas (PAMANA-ARA), obligated P14.2 million (or 86 percent) and disbursed P13.5 million from its P16.5 million allotment. All the expenditures were incurred for activities in Samar (Region VIII), Compostela Valley (Region XI), and North Cotabato (Region XII).

- *Physical Accomplishment of Major Programs/Projects.* At the start of 2012, the department committed to implement 55 PAMANA-ARA projects such as minor infrastructure repairs, livelihood training and other activities in Samar, Compostela Valley and North Cotabato provinces. Of these projects, nine (9) were completed at the end of the year, while the implementation of 31 others extended up to the following year. DAR had to defer 15 other projects either because of failure to come up with a proposal or due to deficiencies in the existing proposal.

Department of Agriculture

- *Financial Performance.* In 2012, DA incurred P56.7 billion of obligations, or approximately 91.1 percent of its P62.2 billion allotment.

  In that year, the major programs of DA - namely, rice, corn, high value crops, livestock and fisheries programs as well as the farm-to-market roads and irrigation systems development- made up a huge fraction of the department's total expenditures.

  The Rice Program obligated P1.8 billion (95.3 percent) of its P1.9 billion allotment; the Corn Program incurred obligations amounting to P1.0 billion (97.4 percent) of its P1.1 billion allotment; the High Value Crops Program reported obligations of P1.7 billion (94.8 percent) from its P1.8 billion allotment; the Livestock Program obligated P849.9 million (87.2 percent) of its allotment of P975.0 million. Meanwhile, a total of P4.9 billion of obligations (99.8 percent) from the P4.9 billion allotment releases for the Repair/Rehabilitation and the Construction of Farm-to-Market Roads in the Designated Key Production Areas were made.

  The Fisheries Program, which was administered by BFAR, obligated P2.7 billion (96.6 percent) of its P2.8 billion allotment. The Irrigation Development Services under NIA, reported obligations of P17.7 billion (91.1 percent) from its allotment releases amounting to P19.4 billion.

- *Physical Accomplishment of Major Programs/Projects.* In 2012, the Rice Program provided 837,171 individuals, or 95.6 percent of target beneficiaries, with production assistance such as rice seeds (7,579,040 kilograms), farm machineries and equipment (42,469 pieces), variety of biological control agents (283,825 pieces) as well as pesticides (93,984 kilograms). The program also distributed 401,346 postharvest equipments and constructed 1,406 facilities including drying pavements and *palay* sheds for the farmers. Also, 69 local market-related events were conducted, while 67 trading centers were facilitated under the Market Development Services component of the program.

For the Corn Program, production support services such as seeds (194,992 kilograms), planting materials (2,548,000 pieces), fertilizers (8,073 kilograms), biological control agents (11,801,338 pieces) were handed out to 25,346 individuals, or 257 percent of the target beneficiaries. Also, 263 postharvest equipment and machineries were distributed while 42 postharvest facilities were constructed for the beneficiaries. About 46,285 participants, or 92 percent of the target, underwent trainings and technology demonstrations conducted under the program, while 2,638 farmers and rural folks, or 92 percent of the target, were given incentives such as allowance and scholarship.

For the High Value Crops Development Program, 3,055 groups, or 107 percent of the target, were given production support services such as vegetable seeds (120,518 kilograms), different planting materials (6,834,318 pieces), *carabaos* (509 heads) and farming equipments (3,561 pieces). Meanwhile, 429 of 774 production facilities, such as nurseries and greenhouses, and 25 of 89 postharvest facilities had been completed in 2012. The construction of the remaining facilities went on in the proceeding year.

For the Livestock Program, seeds (2,155 kilograms), perennial crop planting materials (927,166 pieces), semen straws (248,333 pieces), different kinds of livestock and poultry animals (8,946 heads), and vaccines and drugs (4,300,077 doses) were distributed to 3,022 beneficiaries, or 110 percent of the target. About 1,715 individuals and groups, or 108 percent of the target, benefited from market services provided, while a total of 46,865 individuals took part in trainings and technology demonstrations hosted by the program. Likewise, 2,928 farm folks and rural people received incentives, in form of allowance and scholarship, through the program.

For the infrastructure programs of the department, 76.5 kms. of farm-to-market roads, or 7.7 percent of 1,000 km. target, were constructed, repaired or rehabilitated as of the end-2012. This program benefited around 100,092 individuals. Meanwhile for the Irrigation Development Services, NIA generated new national, communal and small-scale irrigation systems, as well as restored and rehabilitated existing ones. Based on the report submitted by the agency, a total of 42,559 has. of irrigation systems, or 48.8 percent of 87,164 ha. target, were generated over the country. About 35,265 has. of existing irrigation systems, or 59.3 percent of 59,514 ha. target, were restored Also, 91,236 has., or 79.1 percent of 115,397 ha. target, were rehabilitated. These development services benefited around 117,483 households - mostly farmers, and generated some 111,763 jobs.

For the Fisheries Program, about 66,028 fisher folks, or 125 percent of the target beneficiaries, were provided production assistance such as variety of fish seeds, fish brood stock, fishing gears and paraphernalia as well as maintenance support for hatcheries and holding cages. A total of 51,984 of training activities and technical assistance, and 1,618 technology demonstrations were held for the fishermen. Meanwhile, a total of 15,026 *propagules* were planted during mangrove reforestation activities under the Coastal Resource Management component of the program. About 23 fisheries management patrol vessels were deployed over the country waters.

Department of Environment and Natural Resources

- *Financial Performance.* The allotment releases for DENR in 2012 aggregated to P20.5 billion, of which P17.3 billion (84.3 percent) was obligated. For its major programs and projects, the National Greening Program received a total allotment of P2.9 billion, of which P2.6 billion (88 percent) was obligated. The Cadastral Survey had an allotment P2.7 billion of which P2.2 billion (82 percent) was obligated. The DENR's Forest Protection services received allotments of P538.1 million and incurred obligations amounting to P284.0 million (53 percent).

- *Physical Accomplishment of Major Programs/Projects.* For the National Greening Program, the DENR had produced a total of 125,597,730 seedlings, exceeding the target. The department spearheaded planting activities in different areas, covering 221,763 has., which was also above the target of 200,000 hectares.

  For the Cadastral Survey Program, about 6,413,888 has. of areas, or 89 percent of 7,234,590 ha. target, had been surveyed in 2012, covering 315 out of 385 target municipalities.

  For the Forest Protection, 3,613,687 hectares of untenured forest areas- covering the entire target for the year- were patrolled and 188 entry points were monitored, significantly reducing the number of illegal logging hotspots to 31.

Department of Science and Technology

- *Financial Performance.* The total allotment releases for DOST in 2012 amounted to P11.9 billion, of which P10.3 billion (86.8 percent) was obligated. The department's major program, the PAGASA Automation Program, received allotments of P578.0 million in that year. Of this, P284.6 million (49.2 percent) was obligated and P80.5 million was disbursed.

- *Physical Accomplishment of Major Programs/Projects.* For its Automation Program in 2012, PAGASA installed the following equipments to further improve its weather forecasting system: 28 automatic weather stations (AWS); four (4) soil moisture and soil temperature sensors; seven (7) automatic evaporation rate sensors; two (2) forecaster's workstations; six (6) very-small-aperture terminals (VSAT); an integrated satellite facility and a global telecommunication system message switching system (GTS MSS). Also, an X-Band Mobile Radar was procured for the automation program of the agency.

IV. Fiscal Reforms and Future Policy Directions

The national government is improving its fiscal position by pursuing an aggressive combination of revenue generation, active debt and liability management, and more efficient spending. This improvement in fiscal health is one of the reasons cited by major credit rating agencies in upgrading the Philippines to Investment Grade.

To raise the tax effort, the BIR is focusing on improving voluntary tax payments from businesses and self-employed professionals. The bureau also implemented stricter estate tax imposition to improve its revenue collections.

The BOC on the other hand, is undergoing a massive reorganization to raise its efficiency and performance. Two specialized units - the Office of Revenue Agency Modernization (ORAM)[9] and the Customs Policy Research Office (CPRO)[10] - both under the DOF have been created to help improve BOC collections through the formulation of necessary enhancements in systems and procedures.

The legislative agenda of the DOF is also centered on the passage of the Fiscal Incentive Rationalization Bill, Tax Incentive Management and Transparency Act, Fiscal Regime for Mining Industry, and Valuation Reform Act.

On the expenditure side, the government remains committed to the implementation of expenditure management reforms aiming to sustain a strong and healthy fiscal position over the medium-term (sustaining deficits at 2.0 percent of GDP until 2016), better quality expenditures, and a more transparent and accountable spending. For one, the government intensified its efforts in weeding out lump-sum budgets and is piloting this year the one year validity of appropriations (a shift from the two-year validity of appropriations on maintenance and capital outlays). The government also designated DPWH as the principal infrastructure agency to ensure that infrastructure outlays are focused on "the right projects, with the right costs and the right quality." In relation to this, the budget this year also directs line agencies to focus on their core mandates and accelerated delivery of targets to ensure the greatest impact of government activities.

Moreover, the DBM is rolling-out technological innovations to speed-up budget release and procurement transaction, improve information flows and strengthen transparency and accountability. Additional functionalities of *e-payment* and *e-bidding* to the Philippine Government Electronic Procurement System (PhilGEPS) are being developed. The National Payroll System is being tested in pilot agencies; and the Cashless Purchase Cards System is piloted in the military to reduce the use of cash advances. Meanwhile, the Government Integrated Financial Management Information System (GIFMIS), which will enable timely and more comprehensive monitoring of budget execution and agency utilization of funds, is now under development.

In crafting a better focused Budget for 2014, the government started with the conduct of Cabinet-level discussions on the government's priorities that should be funded for 2014 to 2016. These decisions and commitments were summarized in a Budget Priorities Framework that guided all departments in strategically planning their activities and crafting their budgets for 2014. The 2014 Budget also adopted

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[9] Executive Order No. 139, s. 2013
[10] Executive Order No. 140, s. 2013

the Performance-Informed Budgeting (PIB), integrating performance information from the strengthened Organizational Performance Indicator Framework (OPIF) to the National Expenditure Program/General Appropriations Act. The Performance-based Incentive System was installed via E.O. No. 80, s.2012 to provide top-up bonuses based on performance to incentivise continuing improvements in the performance of departments and agencies and will support the PIB.

The greater disaggregation of the Budget and the one-year validity of appropriations will pave the way for the onset of a new budgetary regime: General Appropriations Act will serve as the Budget Release Document in 2014. This eliminates the duplicative process of requesting, processing and releasing budgetary allotments.

On the financial side, the roadmap for Public Financial Management (PFM) Reforms will continue to be implemented. Of this roadmap, the Treasury Single Account should hopefully be installed by 2014. This will revolutionize Treasury cash management operations and provide more predictability in budget releases, easing cash programming and financial reporting.

Moving forward, the National Budget will continue to reflect the nation's priorities in accordance with the Plan; and will be more open and participatory as we actively engage multi-sectoral stakeholders in the budgeting process. The evaluation of existing major programs/project, through the Zero-Based Budgeting approach, will be widened in scope. Government performance in achieving the targeted outputs and sectoral outcomes will be continuously monitored under the OPIF, where performing institutions will be rewarded under the Performance-based Incentive System. Spending commitments of government agencies will be constantly under check, so prompt, efficient and effective public goods and services will be delivered.

In terms of financing the deficit, the government intends to continue its preference for domestic sources considering prevailing market conditions and risk management. The government is also looking at the issuance of new instruments with the aim of deepening the domestic capital market. On top of Retail Treasury Bonds (RTB), and the recently issued On-shore Dollar Bonds (ODB), the government is also considering inflation linked securities that protects investments from upswings in inflation. On the external financing side, the NG will continue to maximize concessional loans from development partners even as it reduces borrowing from foreign markets. Given low deficits and financing requirements, the government has considerable room for flexibility in its funding operations to accommodate shifts in financial market conditions

Much of the advances in debt management achieved in 2012 is expected to carry over in the coming years on the back of favourable investment outlook driven by sound macroeconomic fundamentals. Nevertheless, the National Government continues to be vigilant as it makes its case for investment grade status among the credit rating agencies. It continues to strengthen capacity in risk management to augment current capability in managing the country's debt portfolio.