



UNIVERSITY OF THE PHILIPPINES
SCHOOL OF ECONOMICS

Discussion Paper No. 0110

October 2001

Recent Fiscal Development in the Philippines

by

*Cayetano W. Paderanga, Jr.**

* Professor, School of Economics
University of the Philippines

Note: UPSE Discussion Papers are preliminary versions circulated privately to elicit critical comments. They are protected by the Copyright Law (PD No. 49) and not for quotation or reprinting without prior approval.

RECENT FISCAL DEVELOPMENTS IN THE PHILIPPINES

by

Cayetano Paderanga, Jr.

School of Economics

University of the Philippines

Diliman, Quezon City

PHILIPPINES 1101

March 2001

Second Draft

RECENT FISCAL DEVELOPMENTS IN THE PHILIPPINES

ABSTRACT

The Philippine fiscal picture shows an economy that has not yet achieved sustainable long-term fiscal balance. It had taken major steps in this direction from 1990 to 1996. However, since the Asian Crisis, the picture has deteriorated. The tax ratio has declined, the fiscal balance has turned to negative and has widened, and the public debt reached a level that is not sustainable given reasonable forecasts of inflation, interest rates and the real economic growth rate. To return to a sustainable fiscal situation, the government may have to implement some difficult policies and programs.

OUTLINE

- I. Introduction
- II. Taxes and Public Sector Resource Mobilization in the Philippines
 - A. National and Local Government Revenues and Expenditures
 - B. National Government Revenue Patterns
 - C. National Government Expenditure Patterns
 - D. National Government Deficit Financing
- III. Fiscal Policy for Sustainable Growth
 - A. Sustainability of the Fiscal Balance
 - B. Impact of Government Spending and Taxation on Economic Growth
- IV. Debt Management
- V. Conclusion

RECENT FISCAL DEVELOPMENTS IN THE PHILIPPINES

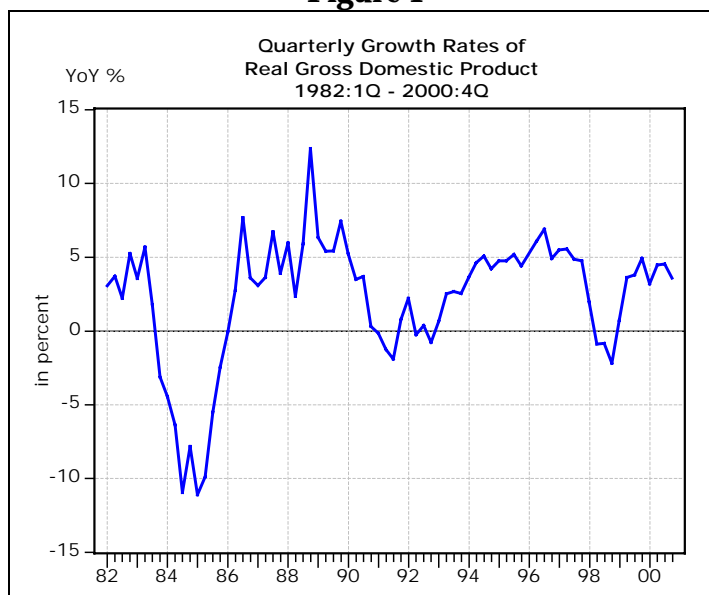
by

Cayetano W. Paderanga, Jr.¹

I. INTRODUCTION

The Philippines has had a volatile economic record for the last two decades. During that period, it experienced one deep and two relatively minor recessions. The deep recession was the crisis that started with a political event, the assassination of Senator Benigno Aquino, that culminated with the downfall of President Ferdinand Marcos in 1985. The minor crises happened in 1990, in the aftermath of the most serious coup attempt against President Corazon Aquino, and in 1997, as part of the Asian Currency crisis. Figure 1 shows the quarterly growth rates of gross domestic product (GDP) for the 1982:1Q - 2000:4Q period. Table 1 lists the related balance of payments crisis that accompanied these economic downturns.

Figure 1



Source: National Statistical Coordination Board., PHILIPPINES.

¹ Cayetano W. Paderanga, Jr. is a Professor at the School of Economics, University of the Philippines, Diliman, Quezon City, PHILIPPINES.

Table 1
BOP Crisis Episodes in the Philippines

Date	Immediate Precipitant	Underlying Precipitant	Average GDP Growth Rate: Past 4 -5 years
Nov. - Dec. 1949	1949 Presidential elections	Rising trade deficit, rapid fall of reserves from \$420 to \$260 million	18.0
Nov. - Dec. 1957	1957 Presidential elections	Trade Deficit pressure inherent in import substitution; reserves fell from \$160 to \$71 M	7.0
Nov. - Dec. 1969	1969 Presidential elections	Trade deficit explosion; rising debt service	5.4
1980 - 1983	Oil shock, rise in world interest rate; political turmoil	Trade deficit pressure; rapid rise debt service	6.4
1990	Gulf war, natural calamities	Trade deficit pressure; debt service explosion	4.5
1997 - 1999	Natural calamities; oil price rebound; presidential election	Trade deficit pressure; still considerable debt service	5.0

Source: Reprinted from Fabella (1994: 144)

A major cause and effect of this overall volatility is deterioration of the fiscal position of government. The continued structural deficit introduces an underlying instability into the system that reduces the economy's ability to absorb external and random internal shocks. Otherwise minor perturbations become large fluctuations because of the underlying imbalances. On the other hand, economic volatility introduces uncertainty into the tax base, reduces stability and predictability in the taxpayers' ability to pay and may unduly complicate the collection process. This underlying interaction argues for structural changes designed to reduce volatility and create a stable fiscal balance.

II. TAXES AND PUBLIC SECTOR RESOURCE MOBILIZATION IN THE PHILIPPINES

A. National and Local Government Revenues and Expenditures

In the past fifteen years since the Aquino administration supplanted the Marcos regime, the Philippine government has implemented various changes in its revenue and expenditure patterns. Soon after taking over, it initiated a series of attempts to overhaul the tax system by restructuring the types and rates of taxes to be imposed. Those pertaining to the national government are discussed in more detail below. As far as comparative national and local government budget activities are concerned, the most significant event was the passage of the Local Government Code (LGC) in 1991. The Code increased the local governments' share of the internal revenue taxes and increased the power of the provinces, municipalities and villages (*barangays*) to impose fees and some taxes. The increased internal revenue allocation is especially mentioned as the reason for the increase in local government resources in the last decade.

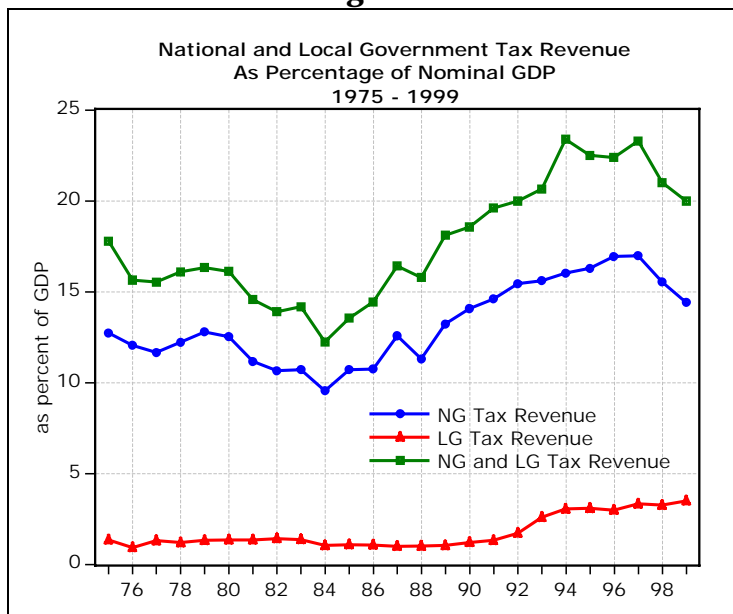
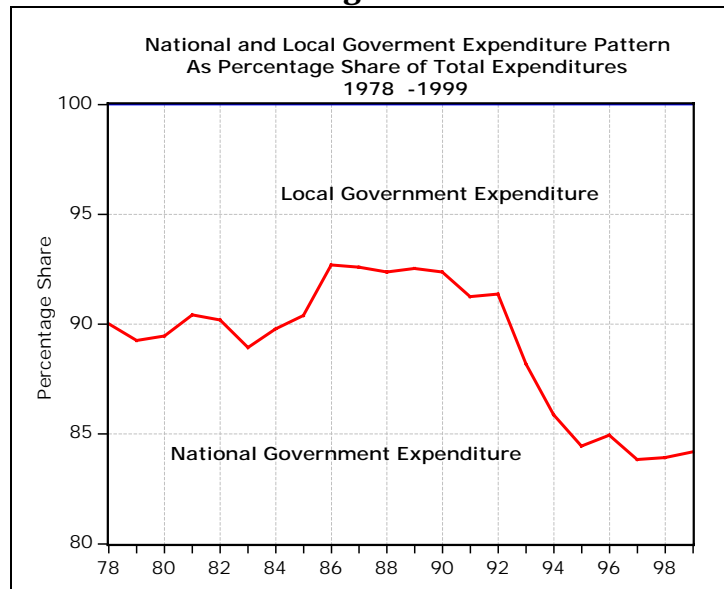
Table 2 shows the revenue of national and local government from 1975 to 2000. The increase in local government resources as a percentage of gross domestic product (GDP) is shown in Figure 2. While national government's share of GDP even slightly decreased in the last decade, local government's share has shown a secular increase. Figure 3 shows how proportions of national and local government to total public expenditures changed.

Table 2
National and Local Government Revenue
Unit: In Million Pesos
1975 - 2000

I T E M S	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
A. National Government (NG) Revenue	16,856	18,089	19,959	24,073	29,470	34,731	35,933	38,205	45,632	56,861	68,961	79,245	103,214
Tax Revenue	13,753	15,327	16,955	20,441	25,956	30,533	31,423	33,779	39,524	50,118	61,253	65,491	85,923
B. Local Government (LG) Revenue	2,344	1,813	2,625	2,847	3,687	4,573	5,102	5,929	6,700	7,349	8,510	8,661	8,923
Tax Revenue	1,454	1,164	1,897	2,012	2,682	3,281	3,805	4,501	5,040	5,454	6,199	6,537	6,777
C. Total (A + B)	19,200	19,902	22,584	26,920	33,157	39,304	41,035	44,134	52,332	64,210	77,471	87,906	112,137
D. Share to Total Government Revenue													
NG Revenue	87.79	90.89	88.38	89.42	88.88	88.36	87.57	86.57	87.20	88.56	89.01	90.15	92.04
LG Revenue	12.21	9.11	11.62	10.58	11.12	11.64	12.43	13.43	12.80	11.44	10.99	9.85	7.96
E. Ratio of Tax Revenue to GDP													
NG Tax Revenue	12.74	12.05	11.66	12.22	12.79	12.53	11.16	10.65	10.71	9.56	10.71	10.76	12.58
LG Tax Revenue	1.35	0.92	1.30	1.20	1.32	1.35	1.35	1.42	1.37	1.04	1.08	1.07	0.99
Combined NG and LG Tax Revenues	17.79	15.64	15.53	16.10	16.34	16.12	14.57	13.91	14.18	12.24	13.55	14.44	16.42
Nominal GDP, Million pesos	107,950	127,211	145,451	167,249	202,900	243,749	281,596	317,177	369,077	524,481	571,883	608,887	682,764

I T E M S	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
A. National Government (NG) Revenue	112,861	152,410	180,902	220,787	242,715	260,405	336,160	361,220	410,449	471,843	462,515	478,502	505,725
Tax Revenue	90,352	122,462	151,698	182,275	208,706	230,170	271,305	310,517	367,894	412,165	416,585	431,688	451,941
B. Local Government (LG) Revenue	13,359	15,281	19,062	23,900	27,434	44,210	59,830	67,840	76,109	93,666	100,226	120,349	
Tax Revenue	8,053	9,654	13,005	16,484	23,086	38,166	51,401	58,938	65,047	80,772	87,391	104,836	146,484
C. Total (A + B)	126,220	167,691	199,964	244,687	270,149	304,615	395,990	429,060	486,558	565,509	562,741	598,851	505,725
D. Share to Total Government Revenue													
NG Revenue	89.42	90.89	90.47	90.23	89.85	85.49	84.89	84.19	84.36	83.44	82.19	79.90	
LG Revenue	10.58	9.11	9.53	9.77	10.15	14.51	15.11	15.81	15.64	16.56	17.81	20.10	
E. Ratio of Tax Revenue to GDP													
NG Tax Revenue	11.31	13.23	14.08	14.61	15.44	15.61	16.03	16.29	16.94	16.98	15.55	14.41	13.60
LG Tax Revenue	1.01	1.04	1.21	1.32	1.71	2.59	3.04	3.09	2.99	3.33	3.26	3.50	4.41
Combined NG and LG Tax Revenues	15.79	18.12	18.56	19.61	19.99	20.66	23.39	22.51	22.40	23.30	21.01	19.99	15.22
Nominal GDP, Million pesos	799,182	925,444	1,077,237	1,248,011	1,351,559	1,474,457	1,692,932	1,906,328	2,171,922	2,426,743	2,678,187	2,996,371	3,322,626

Source: Department of Budget and Management and Commission on Audit for National and Local Government figures, respectively.

Figure 2**Figure 3**

Tables 3 and 4 show the income and expenditure patterns of local governments from 1980 to 1999. The increase in the share of tax revenue relative to operating and miscellaneous revenue and capital revenue is very palpable. Starting 1991, the share of tax revenue jumps from 69 percent to 84 per cent and continuing to increase up to 87 percent as of the last figure available (in 1999). What should not go unnoticed, however, is the increase in the share of public services on the expenditure side. This increased from only about 40 percent at the start of the 1980's to 50 percent in 1999. However the increase started much earlier --- in 1986 when the Aquino administration took over. Still, the share of capital outlay and maintenance and operating expenses indicate that increased resources have not gone toward an increased proportion for direct program expenses and capital investments. This trend must be reversed in the long run, to the extent possible.

B. National Government Revenue Patterns

The Philippine tax effort --- dominated by developments in national government revenue --- has generally been disappointing, especially in comparison to the impressive levels in the ASEAN region. Table 5 shows that the improvement of tax effort in the late nineties is still insufficient to finance the financial operations of the government. From 1975, the tax effort peaked at 17 percent in 1997 but started to deteriorate the following year and has slid further in the last three years. In 2000, the tax effort stood at 13.6 percent as the growth of tax earnings decelerated since 1997 and hit a its lowest growth rate of 1.1 percent in 1998.

Table 3
Income and Expenditure of Local Government
Unit: In Million Pesos
1980 - 1999

I T E M S	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
INCOME	4,573.4	5,101.9	5,929.1	6,699.8	7,348.5	8,510.3	8,661.1	8,923.0	13,358.9	15,280.6
Tax Revenue	3,280.6	3,804.6	4,501.2	5,040.4	5,454.0	6,198.5	6,537.3	6,777.4	8,052.7	9,653.8
Operating and Miscellaneous Revenue	638.2	752.2	879.2	1,052.4	1,204.9	1,430.7	1,322.8	1,460.3	1,634.4	2,444.2
Capital Revenue	6.7	7.2	9.8	11.9	5.1	15.3	5.0	8.6	14.3	653.5
<i>Total</i>	<i>3,925.5</i>	<i>4,564.0</i>	<i>5,390.2</i>	<i>6,104.7</i>	<i>6,664.0</i>	<i>7,644.5</i>	<i>7,865.1</i>	<i>8,246.3</i>	<i>9,701.4</i>	<i>12,751.5</i>
Grants and AIDS	368.0	424.2	459.5	451.9	524.9	747.8	734.2	632.9	3,603.9	2,457.1
Extraordinary Receipts	7.3	9.6	11.7	16.1	10.7	38.8	12.1	30.4	20.2	24.0
Borrowings	272.6	104.1	67.7	127.1	148.9	79.2	49.7	13.4	33.4	48.0
EXPENDITURES UNDER CURRENT YEAR'S OPERATIONS	4,490.0	5,091.7	5,712.8	6,544.9	7,616.3	8,507.9	8,719.2	9,587.2	11,244.6	13,891.6
Personal Services	1,664.9	2,001.4	2,358.0	2,600.0	3,100.6	3,732.3	4,355.5	4,819.6	5,208.1	6,138.0
Maintenance and Other Operating Expenses	1,871.3	2,214.9	2,393.7	2,756.3	3,312.1	3,569.0	3,484.9	3,654.6	4,721.3	5,390.7
Capital Outlay	953.8	875.4	961.1	1,188.6	1,203.6	1,206.6	878.8	1,113.0	1,315.2	2,362.9
EXCESS (DEFICIT) OF INCOME OVER EXPENDITURES	83.4	10.2	216.3	154.9	-267.8	2.4	-58.1	-664.2	2,114.3	1,389.0

I T E M S	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
INCOME	19,062.4	23,899.5	27,433.5	44,210.4	59,830.4	67,840.0	76,109.3	93,666.3	100,225.5	120,348.6
Tax Revenue	13,004.7	16,484.1	23,086.2	38,165.9	51,400.5	58,938.1	65,046.6	80,772.2	87,391.3	104,835.9
Operating and Miscellaneous Revenue	3,039.0	3,310.4	3,054.0	4,010.2	5,167.4	5,574.5	6,787.6	7,953.4	8,373.3	8,959.7
Capital Revenue	219.1	243.0	312.4	30.6	17.1	64.8	309.7	639.7	271.7	112.9
<i>Total</i>	<i>16,262.8</i>	<i>20,037.5</i>	<i>26,452.6</i>	<i>42,206.7</i>	<i>56,585.1</i>	<i>64,577.5</i>	<i>72,143.9</i>	<i>89,365.2</i>	<i>96,036.3</i>	<i>113,908.5</i>
Grants and AIDS	2,692.5	3,396.3	543.8	645.4	605.2	735.5	352.1	498.6	726.0	415.1
Extraordinary Receipts	9.7	17.3	16.2	15.8	34.6	34.3	208.5	574.5	111.7	75.5
Borrowings	97.4	448.4	420.9	1,342.5	2,605.6	2,492.7	3,404.9	3,228.1	3,351.6	5,949.4
EXPENDITURES UNDER CURRENT YEAR'S OPERATIONS	18,021.5	23,681.9	24,444.0	37,828.9	52,553.6	64,491.6	71,582.6	90,639.3	98,112.2	110,786.8
Personal Services	8,746.4	10,589.1	13,073.3	18,333.6	24,893.7	31,282.0	36,166.1	44,843.0	52,033.2	55,327.9
Maintenance and Other Operating Expenses	6,115.6	7,777.6	7,993.3	13,238.4	18,558.4	22,227.1	24,691.7	30,864.7	33,219.7	39,070.2
Capital Outlay	3,159.5	5,315.2	3,377.4	6,256.9	9,101.5	10,982.4	10,724.8	14,931.6	12,859.4	16,388.7
EXCESS (DEFICIT) OF INCOME OVER EXPENDITURES	1,040.9	217.6	2,989.5	6,381.5	7,276.8	3,348.5	4,526.8	3,027.0	2,113.3	9,561.7

Source: Annual Financial Report of Local Government, Commission on Audit, PHILIPPINES.

Table 4
Income and Expenditure of Local Government
Percentage Share
1980 - 1999

I T E M S	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
INCOME	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tax Revenue	71.73	74.57	75.92	75.23	74.22	72.84	75.48	75.95	60.28	63.18
Operating and Miscellaneous Revenue	13.95	14.74	14.83	15.71	16.40	16.81	15.27	16.37	12.23	16.00
Capital Revenue	0.15	0.14	0.17	0.18	0.07	0.18	0.06	0.10	0.11	4.28
<i>Total</i>	85.83	89.46	90.91	91.12	90.69	89.83	90.81	92.42	72.62	83.45
Grants and AIDS	8.05	8.31	7.75	6.74	7.14	8.79	8.48	7.09	26.98	16.08
Extraordinary Receipts	0.16	0.19	0.20	0.24	0.15	0.46	0.14	0.34	0.15	0.16
Borrowings	5.96	2.04	1.14	1.90	2.03	0.93	0.57	0.15	0.25	0.31
EXPENDITURES UNDER CURRENT YEAR'S OPERATIONS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Personal Services	37.08	39.31	41.28	39.73	40.71	43.87	49.95	50.27	46.32	44.18
Maintenance and Other Operating Expenses	41.68	43.50	41.90	42.11	43.49	41.95	39.97	38.12	41.99	38.81
Capital Outlay	21.24	17.19	16.82	18.16	15.80	14.18	10.08	11.61	11.70	17.01

I T E M S	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
INCOME	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Tax Revenue	68.22	68.97	84.15	86.33	85.91	86.88	85.46	86.23	87.19	87.11
Operating and Miscellaneous Revenue	15.94	13.85	11.13	9.07	8.64	8.22	8.92	8.49	8.35	7.44
Capital Revenue	1.15	1.02	1.14	0.07	0.03	0.10	0.41	0.68	0.27	0.09
<i>Total</i>	85.31	83.84	96.42	95.47	94.58	95.19	94.79	95.41	95.82	94.65
Grants and AIDS	14.12	14.21	1.98	1.46	1.01	1.08	0.46	0.53	0.72	0.34
Extraordinary Receipts	0.05	0.07	0.06	0.04	0.06	0.05	0.27	0.61	0.11	0.06
Borrowings	0.51	1.88	1.53	3.04	4.36	3.67	4.47	3.45	3.34	4.94
EXPENDITURES UNDER CURRENT YEAR'S OPERATIONS	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Personal Services	48.53	44.71	53.48	48.46	47.37	48.51	50.52	49.47	53.03	49.94
Maintenance and Other Operating Expenses	33.94	32.84	32.70	35.00	35.31	34.47	34.49	34.05	33.86	35.27
Capital Outlay	17.53	22.44	13.82	16.54	17.32	17.03	14.98	16.47	13.11	14.79

Source: Annual Financial Report of Local Government, Commission on Audit, PHILIPPINES.

Table 5
National Government Account Balances
As Percentage of Nominal GDP
1975 - 1987

ITEMS	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1. Total Revenues	15.61	14.22	13.72	14.39	14.52	14.25	12.76	12.05	12.36	10.84	12.06	13.01	15.12
a. Total Taxes	12.74	12.05	11.66	12.22	12.79	12.53	11.16	10.65	10.71	9.56	10.71	10.76	12.58
Direct Taxes	2.97	3.40	3.28	3.37	3.45	3.67	3.53	2.73	2.54	2.37	3.29	3.18	3.23
Taxes on net income and profits	2.94	3.28	3.22	3.06	3.35	3.59	3.45	2.65	2.45	2.31	3.26	3.14	3.19
Taxes on property	0.03	0.12	0.06	0.32	0.10	0.08	0.08	0.08	0.08	0.05	0.03	0.03	0.04
Indirect Taxes	3.35	4.89	4.27	3.87	4.31	3.83	3.50	3.86	3.55	3.58	3.97	4.38	5.26
Tax on international trade	6.19	3.89	3.35	4.67	4.57	4.06	3.47	3.86	4.48	3.39	3.22	2.93	3.85
Other taxes	0.20	0.23	0.81	0.31	0.25	0.26	0.18	0.23	0.23	0.22	0.23	0.27	0.25
b. Non-tax	2.84	2.17	2.07	2.17	1.73	1.72	1.60	1.39	1.57	1.29	1.35	2.26	2.53
2. Total Expenditures	16.91	16.07	15.68	15.72	14.69	15.64	17.07	16.59	14.24	12.76	14.01	18.15	17.56
a. Current Operating Expenditures	13.61	12.42	12.18	11.50	10.16	10.06	9.37	10.01	9.35	8.17	9.67	11.71	14.10
of which:													
Interest Payments	0.58	0.58	0.62	0.68	0.91	0.94	0.86	1.12	1.35	1.98	2.56	3.44	5.41
Domestic		0.47	0.51	0.45	0.53	0.45	0.51	0.73	0.71	1.17	1.83	2.49	3.56
Foreign		0.12	0.10	0.23	0.37	0.49	0.35	0.39	0.65	0.81	0.73	0.95	1.85
Personal Services		4.75	1.53	1.94	1.30	1.39	3.60	3.36	3.76	3.21	4.00	4.10	4.76
b. Capital Outlays	1.95	2.12	1.94	2.59	2.44	3.45	4.50	2.93	2.82	1.87	1.54	1.92	1.78
c. Net Lending	0.00	0.08	0.03	0.17	0.42	0.28	0.33	0.70	0.65	0.84	0.29	2.49	0.95
3. Total Surplus / (Deficit): (1) - (2)	-1.30	-1.85	-1.96	-1.30	-0.17	-1.39	-4.31	-4.54	-2.01	-1.92	-1.95	-5.13	-2.44
4. Expenditures excl interest payments	16.34	15.48	15.07	15.04	13.79	14.70	16.21	15.46	12.89	10.78	11.44	14.71	12.16
5. Primary Surplus / (Deficit): (1) - (4)	-0.72	-1.26	-1.34	-0.64	0.74	-0.45	-3.45	-3.42	-0.52	0.07	0.61	-1.69	2.96
Nominal GDP (Million Pesos)	107,950	127,211	145,451	167,249	202,900	243,749	281,596	317,177	369,077	524,481	571,883	608,887	682,764

Source: Bureau of Treasury , Department of Finance, Philippines.

(Continuation)

Table 5
National Government Account Balances
As Percentage of Nominal GDP
1988 - 2000

ITEMS	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Total Revenues	14.12	16.47	16.79	17.69	17.96	17.66	19.86	18.95	18.90	19.44	17.27	15.97	15.22
a. Total Taxes	11.31	13.23	14.08	14.61	15.44	15.61	16.03	16.29	16.94	16.98	15.55	14.41	13.60
Direct Taxes	3.48	4.13	4.61	4.91	5.21	5.09	5.45	5.85	6.30	6.80	6.88	6.16	
Taxes on net income and profits	3.43	4.06	4.58	4.89	5.19	5.07	5.43	5.83	6.28	6.77	6.87	6.14	
Taxes on property	0.05	0.07	0.03	0.02	0.02	0.02	0.02	0.02	0.03	0.04	0.02	0.02	
Indirect Taxes	4.16	4.54	4.71	4.10	4.24	4.47	4.49	4.45	4.96	5.39	4.81	4.64	
Tax on international trade	3.20	4.21	4.32	5.21	5.44	5.61	4.86	5.14	4.83	3.92	2.85	2.89	
Other taxes	0.47	0.35	0.44	0.39	0.55	0.44	1.22	0.85	0.85	0.87	1.01	0.72	
b. Non-tax	2.82	3.24	2.64	3.09	2.52	2.05	3.83	2.66	1.96	2.46	1.71	1.56	1.62
2. Total Expenditures	17.03	18.58	20.25	19.80	19.14	19.15	18.89	18.37	18.61	19.38	19.14	19.70	19.32
a. Current Operating Expenditures	14.21	15.63			16.24	15.91	16.38	15.16	14.69	17.28	17.47	17.49	17.46
of which:													
Interest Payments	5.74	5.91	6.60	6.00	5.88	5.19	4.67	3.81	3.52	3.21	3.73	3.55	4.24
Domestic	4.03	4.43	4.99	4.51	4.67	3.81	3.53	2.71	2.72	2.40	2.75	2.50	2.82
Foreign	1.71	1.48	1.61	1.49	1.22	1.38	1.14	1.11	0.81	0.81	0.98	1.04	1.42
Personal Services	5.10	5.55			5.50	5.34	5.47	5.72	5.67	6.20	6.46	5.56	5.45
b. Capital Outlays	1.91	2.29			3.41	2.57	1.99	2.76	1.94	1.97	1.62	2.07	1.77
c. Net Lending	0.68	0.40	0.35	0.46	0.16	0.21	0.35	0.20	0.05	0.06	0.01	0.11	0.08
3. Total Surplus / (Deficit): (1) - (2)	-2.90	-2.11	-3.45	-2.11	-1.18	-1.48	0.96	0.58	0.29	0.06	-1.87	-3.73	-4.10
4. Expenditures excl interest payments	11.29	12.67	13.64	13.80	13.25	13.96	14.23	14.56	15.09	16.17	15.41	16.15	15.08
5. Primary Surplus / (Deficit): (1) - (4)	2.84	3.80	3.15	3.89	4.70	3.70	5.63	4.39	3.81	3.28	1.86	-0.18	0.14
Nominal GDP (Million Pesos)	799,182	925,444	1,077,237	1,248,011	1,351,559	1,474,457	1,692,932	1,906,328	2,171,922	2,426,743	2,678,187	2,996,371	3,322,626

Source: Bureau of Treasury , Department of Finance, Philippines.

The lowest tax ratio of 9.6 percent was registered in during the crisis period of 1984. Thereafter, tax effort has been improving with the implementation of various measures to increase tax earnings. Specifically, the 1986 Tax Reform Program led to improved mobilization of resources to finance the projects of the public sector.

In the nineties, a number of changes in the revenue structure, which moved towards direct taxation turned out to be more beneficial as greater tax burden was redirected on household groups with more ability to pay. From 1986, the share of direct taxes to GDP has been rising faster than in the case of the indirect taxes. The share of direct taxes to total national income increased to 6.9 percent in 1998 from 3.2 percent in 1986 while indirect taxes slightly inched up to 4.8 percent in 1998 from 4.4 percent in 1986. Part of the increase in indirect taxes came from the introduction of the value-added tax (VAT) that was supposed to substitute for transfer taxes. However, the disappointing yield in the VAT and the continuing inadequacy of revenues for meeting expenditure needs has caused the government to delay the second step --- i.e. it has not yet fulfilled the commitment to remove all transfer taxes. This has increased the yield from indirect taxes but has increased the burden on the sector already paying taxes.

Starting 1984, the tax effort had improved as a result of the 1986 tax reform program. However, beginning in 1994, the tax revenue effort started to deteriorate and reverted back to a low of 13.6 percent in 2000 from a high of 19.4 in 1994. There are several possible reasons for this: (1) many tax measures passed by Congress such as the adoption of a simplified income tax system for non-fixed income tax filers, have eroded the tax base; (2) the tax collection machinery has failed to make the necessary administrative adjustments to keep up with the recent tax laws (e.g. inadequate preparation for the implementation of VAT); and, (3) an intensification of governance problems in the tax area.

Nonetheless, dependence on the strength of tax collection from property and net income and profits has increased as countries expand their markets through open trade. As a country gradually dismantles its tariff walls and the yield from trade taxes decline as the AFTA and the GATT-Uruguay Round trade accord become operative then, dependence on trade taxes would have to be reduced. As a result of this, the government will have to tap internal indirect and direct taxes to fund budget. The experience of most countries suggests that domestic indirect taxes progressively replace foreign trade taxes. Direct taxes soon after show greater predominance. Historically however, internal indirect taxes as a percentage of GDP have been fairly constant. Therefore, unless collections from direct taxes are aggressively improved, the government's revenue collections will not be able to catch up with the size of its spending.

Meanwhile, non-tax revenues in the Philippines become more significant during the period 1995-1999 mainly due to the proceeds from sale of sequestered assets and the privatization of some state-operated enterprises. Sales of government assets turned in large, one-time, inflows to the National Treasury. A recent law requiring government corporations to remit 50 percent of their net income as dividend to the national government has also brought forward additional non-tax revenue for the Bureau of Treasury.

However, that these temporary revenue sources distort the long-run fiscal picture of the government. Proceeds from privatization are non-recurring and reflect a corresponding loss of government assets. With lower net worth, the government is in a weaker position to service fiscal deficits in the future. At the same time, the higher dividends going to the National Treasury has neutral effects. It improves the financial picture of the national government but weakens those of affected corporations. Hence, problems arise when these non-recurring and

higher dividends from corporations are treated as permanent and real revenue gain and the proceeds are used for recurring expenditures. The national government would then be faced with larger deficits in the future as privatization proceeds dry up and financial conditions of state corporations deteriorate while the national government budget rise beyond its limits. This could also be cited as one of the causes of the deterioration in the revenue effort seen in the last two years.

C. National Government Expenditure Patterns

A closer examination of national government's fiscal expenditure suggests that, as a percentage of GDP, it has been tracking the country's growth path. In the crisis period of 1984, the lowest share of 12.8 percent was recorded. After achieving the highest tax to GDP ratio of 20.2 percent in 1990, government spending went on the downtrend in subsequent years but is now back on track at 19.3 percent in 2000.

Of the total government spending, the share of capital expenditures is continuously being reduced. After getting the biggest share of more than a quarter in the early eighties, the proportion of capital spending was cut to single-digit rate in the late nineties. The low budgetary share of capital spending suggests that there is serious under-spending in physical infrastructure. Note that this seriously undermines the appropriate role of government in sustaining growth by providing physical and social infrastructure, especially in human capital.

Meanwhile, the amount of spending that was directed towards the servicing of liabilities of the public sector has continued to escalate. Interest payments have continuously accounted for a significant share of total expenditures. From a single digit average of 3.0 percent and 6.8 percent in the period 1975-1979 and 1980-1983, respectively, interest payments surged to an average of 29.1 percent in 1990-1994

and 18.7 percent in 1995-1999. The largest level of 33.7 percent was posted in 1988. The unprecedented large government deficits and borrowing in the last two and one-half years can be expected to soon put upward pressure on interest payments.

D. National Government Deficit Financing

Reviewing the Philippine fiscal balance suggests that the large budget deficits can be traced to the large revenue shortfall relative to the rapid implementation of large public investment projects. After successfully turning up surpluses in 1994 to 1997, total deficit soared to P50 billion in 1998, P111.7 billion in 1999 and P132.5 billion in 2000. (See Table 6)

Table 6
National Government Account Balances
Unit: In Million Pesos
1975 - 1987

ITEMS	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
1. Total Revenues	16,856	18,089	19,959	24,073	29,470	34,731	35,933	38,205	45,632	56,861	68,961	79,245	103,214
a. Total Taxes	13,753	15,327	16,955	20,441	25,956	30,533	31,423	33,779	39,524	50,118	61,253	65,491	85,923
Direct Taxes	3,201	4,320	4,769	5,643	7,006	8,957	9,927	8,668	9,357	12,410	18,828	19,353	22,038
Taxes on net income and profits	3,172	4,167	4,683	5,111	6,805	8,761	9,710	8,406	9,056	12,139	18,655	19,148	21,799
Taxes on property	29	153	86	532	201	196	217	262	301	271	173	205	239
Indirect Taxes	3,614	6,221	6,216	6,466	8,739	9,332	9,851	12,243	13,106	18,793	22,677	26,659	35,893
Tax on international trade	6,687	4,949	4,867	7,816	9,266	9,904	9,771	12,253	16,522	17,756	18,441	17,851	26,274
Other taxes	221	298	1,172	520	514	640	513	736	863	1,159	1,307	1,628	1,718
b. Non-tax	3,061	2,762	3,004	3,632	3,514	4,198	4,510	4,406	5,784	6,743	7,708	13,756	17,291
2. Total Expenditures	18,259	20,438	22,811	26,285	29,812	38,118	48,079	52,610	52,564	66,926	80,102	110,497	119,907
a. Current Operating Expenditures	14,696	15,798	17,719	19,230	20,608	24,516	26,390	31,746	34,522	42,873	55,275	71,330	96,265
of which:													
Interest Payments	624	744	898	1,136	1,841	2,296	2,429	3,560	4,997	10,409	14,652	20,953	36,905
Domestic		596	747	758	1,084	1,098	1,445	2,312	2,615	6,141	10,459	15,156	24,301
Foreign		148	151	378	757	1,198	984	1,248	2,382	4,268	4,193	5,797	12,604
Personal Services		6,044	2,229	3,252	2,638	3,387	10,131	10,647	13,877	16,854	22,896	24,991	32,527
b. Capital Outlays	2,100	2,694	2,823	4,334	4,953	8,405	12,679	9,278	10,409	9,786	8,796	11,683	12,151
c. Net Lending		100	45	283	853	675	929	2,218	2,393	4,423	1,678	15,148	6,510
3. Total Surplus / (Deficit): (1) - (2)	-1,403	-2,349	-2,852	-2,167	-342	-3,387	-12,146	-14,405	-7,431	-10,065	-11,141	-31,252	-16,693
4. Expenditures excl interest payments	17,635	19,694	21,913	25,149	27,971	35,822	45,650	49,050	47,567	56,517	65,450	89,544	83,002
5. Primary Surplus / (Deficit): (1) - (4)	-779	-1,605	-1,954	-1,076	1,499	-1,091	-9,717	-10,845	-1,935	344	3,511	-10,299	20,212

Source: Bureau of Treasury , Department of Finance, Philippines.

(continuation)
Table 6
National Government Account Balances
Unit: In Million Pesos
1988 - 2000

ITEMS	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
1. Total Revenues	112,861	152,410	180,902	220,787	242,715	260,405	336,160	361,220	410,449	471,843	462,515	478,502	505,725
a. Total Taxes	90,352	122,462	151,698	182,275	208,706	230,170	271,305	310,517	367,894	412,165	416,585	431,688	451,941
Direct Taxes	27,793	38,251	49,645	61,242	70,371	75,018	92,269	111,582	136,921	165,051	184,383	184,597	
Taxes on net income and profits	27,409	37,592	49,366	61,053	70,123	74,795	91,886	111,165	136,356	164,170	183,914	184,024	
Taxes on property	384	659	279	189	248	223	383	417	565	881	469	573	
Indirect Taxes	33,207	42,040	50,745	51,155	57,285	65,938	76,025	84,840	107,689	130,720	128,716	138,957	
Tax on international trade	25,580	38,919	46,570	64,973	73,577	82,691	82,318	97,965	104,850	95,187	76,371	86,604	
Other taxes	3,772	3,252	4,738	4,905	7,473	6,523	20,693	16,130	18,434	21,207	27,116	21,528	
b. Non-tax	22,509	29,948	28,423	38,511	34,008	30,235	64,856	50,703	42,555	59,678	45,930	46,816	53,784
2. Total Expenditures	136,067	171,979	218,098	247,136	258,680	282,296	319,873	350,147	404,193	470,279	512,496	590,160	641,836
a. Current Operating Expenditures of which:	113,595	144,632	161,840	196,525	219,505	234,561	277,274	289,053	319,126	419,401	467,920	524,194	579,978
Interest Payments	45,865	54,714	71,113	74,922	79,539	76,489	79,008	72,658	76,522	77,971	99,793	106,290	140,894
Domestic	32,183	41,033	53,727	56,347	63,112	56,183	59,771	51,569	59,002	58,350	73,525	74,980	93,575
Foreign	13,682	13,681	17,386	18,575	16,427	20,306	19,237	21,089	17,520	19,621	26,267	31,310	47,319
Personal Services	40,795	51,366	64,289	69,327	74,337	78,696	92,678	109,074	123,226	150,437	172,889	166,593	180,999
b. Capital Outlays	15,233	21,157	38,236	49,637	46,125	37,830	33,606	52,673	42,161	47,918	43,478	61,998	58,687
c. Net Lending	5,416	3,667	3,785	5,741	2,201	3,149	5,893	3,820	1,161	1,381	329	3,193	2,634
3. Total Surplus / (Deficit): (1) - (2)	-23,206	-19,568	-37,194	-26,349	-15,966	-21,891	16,286	11,074	6,256	1,564	-49,981	-111,658	-136,110
4. Expenditures excl interest payments	90,202	117,265	146,985	172,214	179,141	205,807	240,865	277,489	327,671	392,308	412,703	483,870	500,942
5. Primary Surplus / (Deficit): (1) - (4)	22,659	35,145	33,917	48,573	63,574	54,598	95,295	83,731	82,778	79,535	49,812	-5,368	4,783

Source: Bureau of Treasury , Department of Finance, Philippines.

In most recent years, the large fiscal deficits were financed by foreign borrowing to a significant extent. Historically, foreign borrowing was high in 1975-1979 but started to decline in the mid-eighties as foreign loans became scarce. During the crisis years of 1983 – 1984, the ratio of net external financing to fiscal deficit was again jacked up. Then, from 1984 to 1991, the government tapped domestic financing to manage its deficits. Subsequently, in the late nineties, after posting surpluses for four consecutive years, external finance became increasingly important once again. In 1999 alone, total borrowings from foreign commercial banks amounted to P82.8 billion.

The long-run consequences of large external borrowings can be analyzed by looking at the primary surplus, that is, total revenues less non-debt expenditures. Without large interest payments, the fiscal position of the national government would be more manageable. From only P20.1 billion in 1987, the national government was able to build up a primary surplus amounting to P49.8 billion in 1998. The highest level of primary surplus was reached in 1994 at P95.4 billion.

III. FISCAL POLICY FOR SUSTAINABLE GROWTH

The sustainability of economic growth can be assessed in two ways: (1) to check the attainment of fiscal balance on a sustainable basis; (2) to look at how the mix of government spending and taxation influence economic growth. In a period of stabilization, the government's immediate aim should be to close the fiscal gap in the short-run. Nonetheless, in a process of recovery, which the Philippines is undergoing at this time, a higher growth path should be achieved by attaining fiscal balance but not at the expense of investments in infrastructure and human capital.

A. Sustainability of the Fiscal Balance

1. Savings – Investment Gap

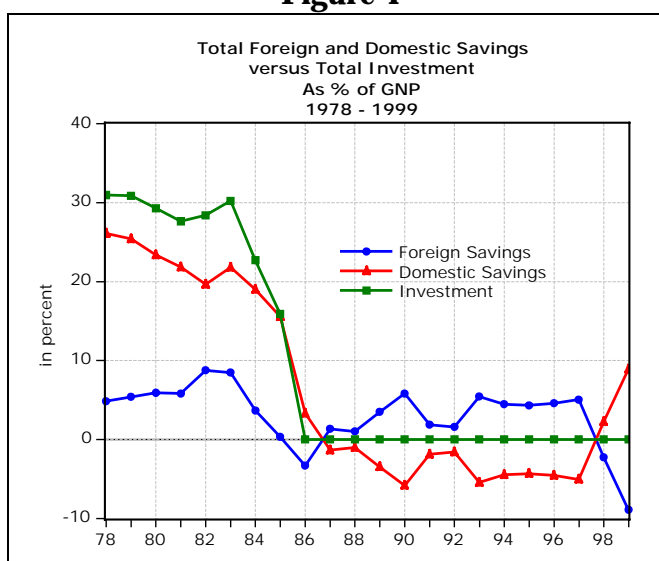
One of the reasons for the failure of the Philippine economy to grow on a sustainable basis is its inability to accumulate savings to finance its public investments. Although gross domestic savings have improved in recent years, negative rates were attained for the period 1990 – 1997. The slow accumulation of savings by the public sector has been offsetting the high savings levels achieved by the private sector. Private savings as a percentage of GNP significantly improved to 4.5 percent in 1998-1999 from -9.2 percent in 1996-1997. On the other hand, public savings dragged overall savings as it slipped to an average of 1.1 percent in 1998-1999 from 4.4 percent in 1996-1997. (See Table 4)

Given the slow pace of savings accumulation, savings-investment gap has been negative for seventeen consecutive years (1980 – 1997). Essentially, this can be traced to the low savings rate since investments have not been reaching very high levels. From P100 million in 1986, total investments slowly inched up to around P600 million in 1999. The investment crunch is largely due to the poor private sector investments, which were also negative during the period 1986-1999.

Gross capital formation can be financed by either gross domestic savings or by current account deficit. With a growing trade gap, there is greater pressure for the private sector to generate private savings and for the government to exhibit a large primary surplus. If the economy has more exports than imports, there is less pressure on the fiscal sector to skimp on essential public infrastructure and investment in human capital in order to show a surplus.

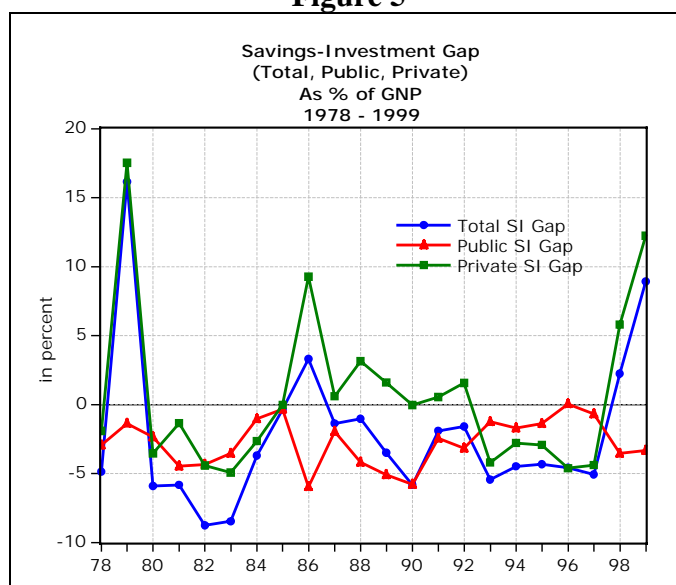
Meanwhile, the trade balance also shows that for the period 1980-1997, the same years when savings-investments gap turned in negative figures, outflows exceeded inflows. It was only in the years 1998 and 1999 when positive trade gaps were observed. Hence, the increase in private savings can be explained by the improvement in the trade positions of the country. (See Table 5).

Figure 4



Source: National Statistical Coordination Board.

Figure 5



Source: National Statistical Coordination Board.

Table 7
Savings and Investment
As Percentage of Nominal GNP
1978 - 1988

Item	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
Foreign Savings	4.87	5.42	5.91	5.83	8.77	8.47	3.69	0.34	-3.31	1.37	1.05
Gross Domestic Savings	26.11	25.40	23.38	21.85	19.63	21.80	18.99	15.56	3.32	-1.35	-1.03
Private Savings	23.10	20.02	19.33	18.67	18.09	18.36	16.04	12.75	6.02	-2.63	-0.17
Public Savings	2.95	4.44	4.05	3.18	1.54	3.41	2.96	2.81	-2.70	1.27	-0.87
NG	2.89	4.39	4.21	3.40	2.09	3.07	2.78	2.48	2.09	0.97	-0.68
13 MNFGC's	0.24	0.30	0.04	-0.04	-0.13	0.75	0.54	0.76	0.05	0.83	1.13
LGUs	-0.18	-0.25	-0.21	-0.18	-0.42	-0.42	-0.36	-0.44	0.24	0.17	0.03
SSS/GSIS	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.11	0.76	0.58
GFI's	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-2.11	0.15	0.23
APSE	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
BSP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	-3.09	-1.61	-2.16
CB BOL Net Income	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Intra-Public Sector Adjust	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total Investment	30.97	30.87	29.29	27.64	28.40	30.24	22.69	15.90	0.02	0.02	0.02
Public Investment	5.90	5.82	6.40	7.65	5.88	6.95	4.01	3.16	3.26	3.24	3.33
NG	2.59	2.47	3.47	4.54	2.99	2.88	1.95	1.60	2.16	1.97	2.08
13 MGNFDC's	3.07	3.16	2.73	2.86	2.67	3.85	1.89	1.40	1.00	1.18	1.15
LGUs	0.24	0.20	0.21	0.25	0.22	0.22	0.18	0.16	0.10	0.09	0.09
Private Investment	25.03	2.51	22.89	20.03	22.52	23.29	18.70	12.77	-3.25	-3.22	-3.31
S-I Gap	-4.87	16.14	-5.91	-5.83	-8.77	-8.47	-3.71	-0.36	3.31	-1.37	-1.05
Public S-I Gap	-2.95	-1.38	-2.35	-4.47	-4.34	-3.55	-1.05	-0.34	-5.96	-1.96	-4.19
Private S-I Gap	-1.93	17.52	-3.55	-1.36	-4.43	-4.93	-2.66	-0.02	9.27	0.59	3.14
Gross National Product, nominal (billion pesos)	166.21	202.78	242.08	279.63	311.23	361.07	503.82	551.43	588.39	665.44	782.07

Source: National Statistical Coordination Board, PHILIPPINES.

(continuation)

Table 7
Savings and Investment
As Percentage of Nominal GNP
1989 - 1999

Item	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Foreign Savings	3.50	5.82	1.90	1.59	5.45	4.49	4.33	4.58	5.07	-2.25	-8.90
Gross Domestic Savings	-3.47	-5.80	-1.88	-1.57	-5.43	-4.46	-4.31	-4.56	-5.05	2.26	8.92
Private Savings	-2.55	-5.49	-4.33	-3.19	-9.86	-7.56	-7.42	-9.02	-9.36	0.80	8.21
Public Savings	-0.92	-0.31	2.45	1.62	4.43	3.10	3.11	4.46	4.32	1.46	0.71
NG	0.60	-0.12	1.60	1.88	2.15	1.31	2.36	3.09	3.54	0.53	-0.38
13 MNFGC's	0.91	0.69	0.85	-0.01	0.82	1.70	1.03	0.64	0.51	0.21	0.48
LGUs	0.10	0.04	0.04	0.08	0.22	0.10	-0.09	0.12	0.00	-0.11	-0.12
SSS/GSIS	0.44	0.97	0.65	0.60	0.78	-0.69	0.00	0.37	0.15	0.63	1.15
GFI's	0.30	0.29	0.19	0.28	0.40	0.18	0.26	0.37	0.17	0.19	0.06
APSE	-0.94	-0.14	0.81	0.40	-0.53	0.15	-0.47	0.21	-0.03	0.02	0.06
BSP	-2.33	-2.04	-1.69	-1.60	-0.07	0.30	0.18	-0.10	0.09	0.11	-0.13
CB BOL Net Income	0.00	0.00	0.00	0.00	0.00	-0.47	-0.26	-0.22	-0.20	-0.17	-0.19
Intra-Public Sector Adjust	0.00	0.00	0.00	0.00	0.65	0.52	0.10	-0.03	0.09	0.04	-0.24
Total Investment	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Public Investment	4.17	5.48	4.91	4.79	5.69	4.79	4.51	4.42	5.00	5.01	4.04
NG	2.43	2.84	3.09	2.69	2.62	2.00	2.95	2.62	3.15	3.14	3.07
13 MGNFDC's	1.65	2.50	1.64	1.90	2.77	2.42	1.14	1.40	1.39	1.56	0.62
LGUs	0.09	0.13	0.18	0.20	0.29	0.37	0.42	0.40	0.47	0.31	0.34
Private Investment	-4.14	-5.46	-4.89	-4.77	-5.66	-4.77	-4.48	-4.39	-4.97	-4.99	-4.02
S-I Gap	-3.50	-5.82	-1.90	-1.59	-5.45	-4.49	-4.33	-4.58	-5.07	2.25	8.90
Public S-I Gap	-5.09	-5.79	-2.46	-3.16	-1.25	-1.69	-1.39	0.04	-0.68	-3.54	-3.33
Private S-I Gap	1.59	-0.04	0.55	1.57	-4.20	-2.79	-2.94	-4.62	-4.39	5.79	12.23
Gross National Product, nominal (billion pesos)	905.46	1,071.43	1,254.56	1,374.84	1,500.29	1,736.38	1,958.93	2,261.34	2,528.32	2,815.26	3,155.63

Source: National Statistical Coordination Board, PHILIPPINES.

Table 8
Balance of Payment
In Million US Dollars
1980 - 1989

ITEMS	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
I. Current Account , Net	-1,904	-2,061	-3,200	-2,750	-1,116	-103	954	-444	-390	-1,456
<i>(As percent of GNP)</i>	<i>-5.9</i>	<i>-5.8</i>	<i>-8.8</i>	<i>-8.5</i>	<i>-3.7</i>	<i>-0.3</i>	<i>3.3</i>	<i>-1.4</i>	<i>-1.1</i>	<i>-3.5</i>
A. Trade, Net	-1,939	-2,224	-2,646	-2,482	-679	-482	-202	-1,017	-1,085	-2,598
<i>(As percent of GNP)</i>	<i>-6.0</i>	<i>-6.3</i>	<i>-7.3</i>	<i>-7.6</i>	<i>-2.3</i>	<i>-1.6</i>	<i>-0.7</i>	<i>-3.1</i>	<i>-2.9</i>	<i>-6.2</i>
Goods, Net	-1,939	-2,224	-2,646	-2,482	-679	-482	-202	-1,017	-1,085	-2,598
<i>(As percent of GNP)</i>	<i>-6.0</i>	<i>-6.3</i>	<i>-7.3</i>	<i>-7.6</i>	<i>-2.3</i>	<i>-1.6</i>	<i>-0.7</i>	<i>-3.1</i>	<i>-2.9</i>	<i>-6.2</i>
Exports	5,788	5,722	5,021	5,005	5,391	4,629	4,842	5,720	7,074	7,821
Imports	7,727	7,946	7,667	7,487	6,070	5,111	5,044	6,737	8,159	10,419
Services, Net	-399	-309	-1,040	-740	-823	-	715	-	-80	312
Receipts	2,222	2,896	2,983	3,127	2,626	3,288	3,791	3,454	3,592	4,586
Payments	2,621	3,205	4,023	3,867	3,449	3,288	3,076	3,454	3,672	4,274
B. Transfers, Net	434	472	486	472	386	379	441	573	775	830
Inflow	451	485	498	483	387	388	445	575	778	832
Outflow	17	13	12	11	1	9	4	2	3	2
II. Capital and Financial Account, Net	1,235	1,494	1,594	776	917	1,032	-3	504	63	1,033
<i>(As percent of GNP)</i>	<i>3.8</i>	<i>4.2</i>	<i>4.4</i>	<i>2.4</i>	<i>3.0</i>	<i>3.5</i>	<i>0.0</i>	<i>1.6</i>	<i>0.2</i>	<i>2.5</i>
of which:										
A. Medium & Long-Term Loans, Net	1,032	1,332	1,548	1,392	478	2,787	732	159	-519	381
B. Investment, Net	-102	151	-99	-5	-85	-22	89	265	885	741
III. Others	185	440	227	133	154	133	207	287	397	389
IV. Net Unclassified Items	112	-405	-371	-387	161	638	33	-144	422	383
V. Overall BOP Position	-372	-547	-1,671	-2,118	243	2,301	1,242	264	593	451
<i>(As percent of GNP)</i>	<i>-1.2</i>	<i>-1.5</i>	<i>-4.6</i>	<i>-6.5</i>	<i>0.8</i>	<i>7.8</i>	<i>4.3</i>	<i>0.8</i>	<i>1.6</i>	<i>1.1</i>
Gross National Product, Nominal (US \$)	32,228	35,397	36,444	32,491	30,171	29,635	28,863	32,354	37,074	41,656

Sources: Bangko Sentral ng Pilipinas, Philippines

(continuation)
Table 8
Balance of Payment
In Million US Dollars
1990 - 1999

ITEMS	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
I. Current Account , Net	-2,567	-869	-858	-3,016	-2,950	-3,297	-3,953	-4,351	1,546	7,239
<i>(As percent of GNP)</i>	<i>-5.8</i>	<i>-1.9</i>	<i>-1.6</i>	<i>-5.5</i>	<i>-4.5</i>	<i>-4.3</i>	<i>-4.6</i>	<i>-5.1</i>	<i>2.2</i>	<i>9.0</i>
A. Trade, Net	-3,281	-1,696	-1,675	-3,715	-3,886	-4,179	-4,542	-5,431	1,111	6,753
<i>(As percent of GNP)</i>	<i>-7.4</i>	<i>-3.7</i>	<i>-3.1</i>	<i>-6.7</i>	<i>-5.9</i>	<i>-5.5</i>	<i>-5.3</i>	<i>-6.3</i>	<i>1.6</i>	<i>8.4</i>
Goods, Net	-4,020	-3,211	-4,695	-6,222	-7,850	-8,944	-11,342	-11,127	-28	4,295
<i>(As percent of GNP)</i>	<i>-9.1</i>	<i>-7.0</i>	<i>-8.7</i>	<i>-11.2</i>	<i>-11.9</i>	<i>-11.7</i>	<i>-13.1</i>	<i>-13.0</i>	<i>0.0</i>	<i>5.3</i>
Exports	8,186	8,840	9,824	11,375	13,483	17,447	20,543	25,228	29,496	35,037
Imports	12,206	12,051	14,519	17,597	21,333	26,391	31,885	36,355	29,524	30,742
Services, Net	739	1,515	3,020	2,507	3,964	4,765	6,800	5,696	1,139	2,458
Receipts	4,842	5,624	7,443	7,497	10,550	14,374	19,006	22,835	13,917	12,883
Payments	4,103	4,109	4,423	4,990	6,586	9,609	12,206	17,139	12,778	10,425
B. Transfers, Net	714	827	817	699	936	882	589	1,080	435	486
Inflow	717	828	826	746	1,041	1,147	1,185	1,670	758	654
Outflow	3	1	9	47	105	265	596	590	323	168
II. Capital and Financial Account, Net	1,776	1,878	1,850	2,820	4,547	3,393	11,075	6,593	478	-1,007
<i>(As percent of GNP)</i>	<i>4.0</i>	<i>4.1</i>	<i>3.4</i>	<i>5.1</i>	<i>6.9</i>	<i>4.5</i>	<i>12.8</i>	<i>7.7</i>	<i>0.7</i>	<i>-1.2</i>
of which:										
A. Medium & Long-Term Loans, Net	674	835	633	2,455	1,313	1,276	2,841	4,824	2,740	4,716
B. Investment, Net	480	654	737	812	1,558	1,609	3,517	762	1,672	1,152
III. Others	1,018	632	657	544	254	81	-5	-360	96	280
IV. Net Unclassified Items	-320	462	-157	-514	-49	-556	-3,010	-5,245	-761	-2,673
V. Overall BOP Position	-93	2,103	1,492	-166	1,802	631	4,107	-3,363	1,359	3,839
<i>(As percent of GNP)</i>	<i>-0.2</i>	<i>4.6</i>	<i>2.8</i>	<i>-0.3</i>	<i>2.7</i>	<i>0.8</i>	<i>4.8</i>	<i>-3.9</i>	<i>2.0</i>	<i>4.8</i>
Gross National Product, Nominal (US \$)	44,073	45,656	53,889	55,321	65,729	76,180	86,259	85,791	68,844	80,729

Sources: Bangko Sentral ng Pilipinas, Philippines

2. Tax Buoyancy

Tax buoyancy, which measures the point elasticity of taxes with respect to changes in GDP, stagnated to 0.3 and 0.4 in 1999 and 2000, respectively. This implies that increases in economic activity lead to much lower percentage increases in tax revenue, contrary to what the literature suggests. One possible explanation is poor revenue collection mechanism allows huge leaks in tax revenue. (See Table 9)

Meanwhile, the rise in tax effort has been slow despite the many tax laws and new administrative measures passed by the authorities. There is a growing consensus among policymakers and tax researchers that losses due to tax evasion of personal income taxes are extremely large. In 1999, tax buoyancy for taxes on net income and profits was depressed to 0.01 from a range of 1.5-1.7 in earlier years beginning in 1994. There is a pressing need to address the administrative problems that allow tax evasion.

3. Debt Ratio

One of the major threats on the long-term fiscal position of the national government is its large stock of outstanding debt and the costs of servicing that debt in the long term. During the Aquino administration, the government's decision to assume the servicing and liabilities of the Philippine National Bank and the Development Bank of the Philippines and other public institutions largely contributed to the rising national government debt. Similarly, the budgetary assistance provided by the national government for the restructuring of the Central Bank further depressed the country's fiscal position. (See Table 10).

Table 9
National Government Tax Buoyancy
(Elasticity)
1976 - 2000

	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Total Revenues		0.4	0.7	1.4	1.1	0.9	0.2	0.5	1.2	0.6	2.4	2.3	2.5
a. Total Taxes		0.6	0.7	1.4	1.3	0.9	0.2	0.6	1.0	0.6	2.5	1.1	2.6
Direct Taxes		2.0	0.7	1.2	1.1	1.4	0.7	(1.0)	0.5	0.8	5.7	0.4	1.1
Taxes on net income		1.8	0.9	0.6	1.6	1.4	0.7	(1.1)	0.5	0.8	5.9	0.4	1.1
Taxes on property		24.0	(3.1)	34.6	(2.9)	(0.1)	0.7	1.6	0.9	(0.2)	(4.0)	2.9	1.4
Indirect Taxes		4.0	(0.0)	0.3	1.6	0.3	0.4	1.9	0.4	1.0	2.3	2.7	2.9
Tax on international trade		(1.5)	(0.1)	4.0	0.9	0.3	(0.1)	2.0	2.1	0.2	0.4	(0.5)	3.9
Other taxes		2.0	20.5	(3.7)	(0.1)	1.2	(1.3)	3.4	1.1	0.8	1.4	3.8	0.5
b. Non-tax		(0.5)	0.6	1.4	(0.2)	1.0	0.5	(0.2)	1.9	0.4	1.6	12.1	2.1

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Revenues	0.5	2.2	1.1	1.4	1.2	0.8	2.0	0.6	1.0	1.3	(0.2)	0.3	0.5
a. Total Taxes	0.3	2.2	1.5	1.3	1.7	1.1	1.2	1.1	1.3	1.0	0.1	0.3	0.4
Direct Taxes	1.5	2.4	1.8	1.5	1.8	0.7	1.6	1.7	1.6	1.8	1.1	0.0	(9.2)
Taxes on net income	1.5	2.4	1.9	1.5	1.8	0.7	1.5	1.7	1.6	1.7	1.2	0.0	
Taxes on property	3.6	4.5	(3.5)	(2.0)	3.8	(1.1)	4.8	0.7	2.5	4.8	(4.5)	1.9	
Indirect Taxes	(0.4)	1.7	1.3	0.1	1.4	1.7	1.0	0.9	1.9	1.8	(0.1)	0.7	(9.2)
Tax on international trade	(0.2)	3.3	1.2	2.5	1.6	1.4	(0.0)	1.5	0.5	(0.8)	(1.9)	1.1	(9.2)
Other taxes	7.0	(0.9)	2.8	0.2	6.3	(1.4)	14.7	(1.7)	1.0	1.3	2.7	(1.7)	(9.2)
b. Non-tax	1.8	2.1	(0.3)	2.2	(1.4)	(1.2)	7.7	(1.7)	(1.2)	3.4	(2.2)	0.2	1.4

Source: Bureau of Treasury, Department of Finance, PHILIPPINES.

Table 10
Public Sector Debt
1965 - 1999

Year	Levels, in billion pesos			Growth Rate, in percent			Shares to Total, in percent	
	Internal Debt	External Debt	Total Debt	Internal Debt	External Debt	Total Debt	Internal Debt	External Debt
1965	1.9	1.0	2.9				66.9	33.1
1966	2.1	1.1	3.1	5.9	10.3	7.3	66.0	34.0
1967	2.5	1.6	4.0	21.2	47.3	30.1	61.5	38.5
1968	2.7	1.7	4.3	6.8	6.2	6.6	61.7	38.3
1969	3.5	2.2	5.7	33.0	30.3	31.9	62.1	37.9
1970	4.0	4.2	8.2	13.6	93.2	43.8	49.1	50.9
1971	4.3	5.2	9.5	6.6	25.4	16.2	45.1	54.9
1972	5.6	6.6	12.2	30.8	26.6	28.5	45.9	54.1
1973	7.3	7.6	14.9	30.1	15.4	22.1	48.9	51.1
1974	9.9	9.4	19.3	35.4	23.2	29.2	51.3	48.7
1975	11.0	14.0	25.0	11.3	49.0	29.7	44.0	56.0
1976	13.2	14.3	27.4	19.9	1.9	9.8	48.0	52.0
1977	15.3	13.8	29.0	15.8	-3.4	5.8	52.6	47.4
1978	17.8	22.0	39.9	16.9	59.9	37.3	44.7	55.3
1979	19.1	17.1	36.1	7.0	-22.6	-9.3	52.8	47.2
1980	42.1	34.9	77.0	120.6	104.5	113.0	54.7	45.3
1981	59.0	46.1	105.1	40.1	32.0	36.4	56.2	43.8
1982	73.7	61.5	135.3	25.0	33.5	28.7	54.5	45.5
1983	107.6	138.6	246.2	45.9	125.4	82.0	43.7	56.3
1984	127.4	232.6	360.0	18.5	67.8	46.2	35.4	64.6
1985	297.7	325.6	623.3	133.6	40.0	73.1	47.8	52.2
1986	408.0	407.1	815.1	37.0	25.0	30.8	50.1	49.9
1987	418.5	432.1	850.6	2.6	6.1	4.4	49.2	50.8
1988	461.8	399.8	861.6	10.3	-7.5	1.3	53.6	46.4
1989	555.3	402.0	957.2	20.2	0.6	11.1	58.0	42.0
1990	623.2	552.3	1,175.4	12.2	37.4	22.8	53.0	47.0
1991	848.0	599.5	1,447.5	36.1	8.6	23.1	58.6	41.4
1992	818.3	1,003.8	1,822.1	-3.5	67.4	25.9	44.9	55.1
1993	1,260.7	652.1	1,912.8	54.1	-35.0	5.0	65.9	34.1
1994	1,289.2	660.2	1,949.4	2.3	1.2	1.9	66.1	33.9
1995	1,453.6	713.5	2,167.1	12.8	8.1	11.2	67.1	32.9
1996	1,502.6	734.6	2,237.2	3.4	3.0	3.2	67.2	32.8
1997	1,586.9	1,082.4	2,669.3	5.6	47.3	19.3	59.5	40.5
1998	1,721.2	1,230.3	2,951.5	8.5	13.7	10.6	58.3	41.7
1999	2,196.6	1,469.7	3,666.3	27.6	19.5	24.2	59.9	40.1
2000	2,116.8	1,626.3	3,743.1				56.6	43.4

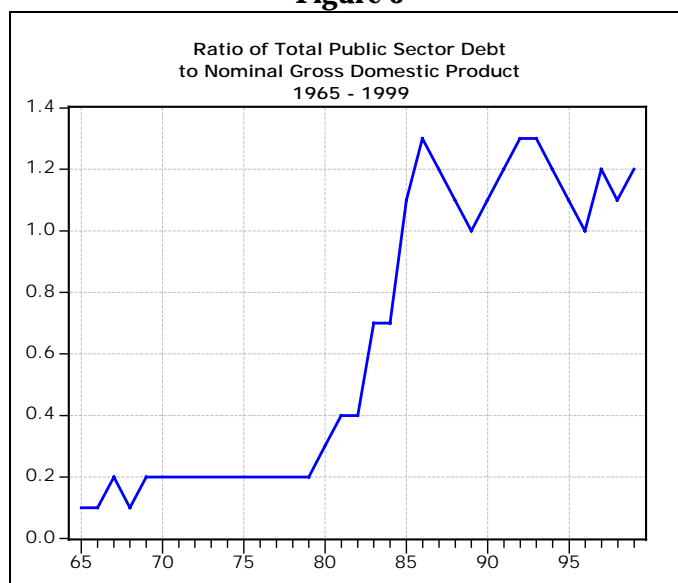
(as of March)

Note: Public Sector includes National Government, 14 monitored GOCCs, CB/CB-BOL/BSP and GFIs.

Source: Department of Finance, PHILIPPINES.

Debt service ratio or the ratio of total public sector debt to nominal GDP level has been on an upsurge. Figure 6 shows that from an average of 0.2 in the seventies, debt to GDP ratio has gone up to over one in the nineties. In terms of levels, total public sector debt has escalated to P3.7 trillion in 1999 from merely P957.2 billion in 1989, which was already twelve times more than its 1980 level of P77.0 billion. Of the total public sector debt, the debt structure has changed to an almost equal sharing between the internal and external sources in the late nineties. This is contrary to its structure in the eighties when the bigger proportion of the debt was taken in from external sources.

Figure 6



Source: Department of Finance, PHILIPPINES.

B. Impact of Government Spending and Taxation on Economic Growth

Budgetary Priorities

Social services are still the main priority of the national government as its share to total budget is constantly adjusted upwards. As of 1999, allocation for social services was already at 33.23 percent after being cut to 21.97 percent in 1990. Among the social sectors, education was the biggest recipient, which took approximately 30 percent of total budget. (See Table 11)

However, government spending for economic services is continuously being cut, declining to lowest share of 21.5 percent in 1998 from its peak of 46.48 percent in 1981. Of which, allocation for infrastructure has been cramped to a low of 8.54 percent in 1998 from over 20 percent in 1980. Meanwhile, the share of allocation for agriculture does not seem sufficient to support the sector's growth. From 6.9 percent and 7.3 percent in 1989 and 1990, respectively, budget spending for agriculture was trimmed down to 4.7 percent in 1998 and 5.7 percent in 1999.

In contrast, the large share of general services has been fairly stable at a little more than 18 percent of the total. If these trends of rising allocation for general public services and decreasing budget for economic services will continue to prevail, it would redound to a weaker contribution of the government to sustainable growth. It would mean that the national government would be spending more for areas that are less important (general public services) and less on areas that are crucial for sustaining economic growth (economic and social services).

Table 11
Sectoral Allocation of National Government Expenditures
Percentage Share
1976 -1988

PARTICULARS	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
ECONOMIC SERVICES	42.45	40.36	43.58	42.61	43.17	46.48	37.92	34.93	33.55	28.23	25.89	21.90	19.05
Agricultural, Agrarian Reform, and Natural Resources	12.46	9.44	12.30	6.01	6.34	7.03	8.16	7.15	5.58	6.41	4.01	6.22	5.78
Trade and Industry	1.04	1.04	1.13	1.19	2.76	5.01	2.87	2.55	2.48	1.48	2.43	0.88	0.93
Tourism	0.33	0.25	0.40	0.54	0.37	0.39	0.46	0.29	0.18	0.22	0.13	0.13	0.18
Power and Energy	5.39	4.89	8.09	8.88	6.99	6.45	3.61	2.19	1.40	1.84	1.23	1.46	0.15
Water Resource Development and Flood Control	2.51	2.91	2.02	2.60	2.11	1.79	1.20	0.19	1.07	2.11	1.37	1.15	0.99
Communications, Roads and Other Transportation	16.32	16.81	16.45	21.09	20.35	19.05	17.18	16.51	10.61	11.27	6.65	8.13	8.64
Other Economic Services	4.40	5.01	3.19	2.31	4.26	6.76	4.44	6.06	12.23	4.91	10.07	3.93	2.38
Subsidy to Local Government Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
SOCIAL SERVICES	18.55	19.20	19.82	19.79	22.19	21.82	22.77	23.20	19.87	21.66	20.76	22.31	22.62
Education, Culture and Manpower Development	12.11	12.56	13.55	12.18	13.08	12.86	13.30	12.79	12.68	14.66	13.06	13.97	15.48
Health	4.00	4.35	3.52	3.74	4.04	4.03	4.61	5.13	3.85	4.47	3.27	3.49	3.95
Social Security and Labor Welfare	1.71	1.56	1.70	1.47	1.23	1.23	0.90	0.89	0.76	0.80	0.62	0.67	0.73
Land Distribution (CARP)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.21	0.00
Housing and Community Development	0.28	0.64	0.95	2.32	2.45	2.65	3.28	3.50	1.85	0.92	1.43	0.36	0.42
Other Social Services	0.45	0.09	0.10	0.09	1.40	1.03	0.68	0.90	0.73	0.81	2.38	3.60	2.04
Subsidy to Local Government Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DEFENSE	21.73	22.79	18.72	16.89	11.29	10.25	10.40	10.68	8.42	9.72	7.04	6.94	8.67
Domestic Security	19.65	20.58	13.75	12.90	11.29	10.25	10.40	10.68	8.42	9.72	7.04	6.94	8.67
Peace and Order	2.09	2.21	4.96	3.99	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL PUBLIC SERVICES	13.38	13.39	12.82	12.59	15.27	14.40	17.32	17.08	14.99	16.91	12.32	12.70	13.67
General Administration	7.87	7.10	6.68	7.13	5.90	5.78	7.95	6.68	5.80	7.06	4.40	5.04	5.11
Public Order and Safety	1.13	1.14	1.09	1.11	5.62	5.10	5.10	5.85	5.21	5.58	5.01	4.75	5.64
Other General Public Services	4.38	5.15	5.05	4.35	3.76	3.52	4.27	4.56	3.98	4.27	2.90	2.91	2.93
Subsidy to Local Government Units	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
NET LENDING	0.46	0.20	0.88	2.57	1.83	1.95	4.45	4.57	6.91	3.49	14.01	5.82	3.80
DEBT SERVICE	3.42	4.06	4.18	5.55	6.24	5.10	7.15	9.54	16.25	19.99	19.99	30.34	32.19
Interest Payments	3.42	4.06	4.18	5.55	6.24	5.10	7.15	9.54	16.25	19.99	19.99	30.34	32.19
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Department of Budget and Management, PHILIPPINES.

(continuation)

Table 11
Sectoral Allocation of National Government Expenditures
Percentage Share
1989 - 2000

PARTICULARS	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*
ECONOMIC SERVICES	23.37	24.17	24.86	22.89	23.37	25.76	27.53	25.33	26.80	21.51	23.98	24.20
Agricultural, Agrarian Reform, and Natural Resources	6.92	7.28	6.52	5.92	5.62	6.28	6.34	6.94	8.32	4.75	5.68	5.70
Trade and Industry	1.08	1.01	1.17	0.93	0.90	1.12	1.72	1.06	1.01	0.62	0.54	0.47
Tourism	0.16	0.11	0.11	0.13	0.14	0.14	0.21	0.18	0.20	0.12	0.15	0.20
Power and Energy	0.54	3.05	0.81	0.78	2.04	0.80	0.94	0.27	0.33	0.18	0.63	0.18
Water Resource Development and Flood Control	1.08	1.72	1.13	1.50	1.31	1.09	1.06	0.65	1.33	0.82	1.01	0.78
Communications, Roads and Other Transportation	10.49	8.10	11.87	10.18	8.22	10.80	10.99	10.32	9.85	8.54	9.41	9.50
Other Economic Services	3.11	2.89	1.69	0.71	0.46	0.56	1.38	1.16	0.70	1.66	0.82	1.35
Subsidy to Local Government Units	0.00	0.00	1.56	2.74	4.70	4.96	4.90	4.76	5.06	4.83	5.75	6.02
SOCIAL SERVICES	22.43	21.97	22.26	22.94	23.38	23.41	26.87	29.52	32.30	33.68	33.23	32.99
Education, Culture and Manpower Development	15.77	15.00	13.48	14.39	14.08	13.67	16.57	17.95	19.31	20.11	19.06	18.64
Health	3.76	3.56	3.69	3.78	2.52	2.41	2.25	2.70	2.88	2.60	2.58	2.26
Social Security and Labor Welfare	0.86	0.95	1.49	1.28	1.18	1.48	1.86	2.43	4.12	4.00	4.28	3.75
Land Distribution (CARP)	0.19	0.12	1.63	0.00	0.00	0.00	0.00	0.00	0.00	0.47	0.38	0.75
Housing and Community Development	0.23	0.30	0.47	0.13	0.60	0.49	0.88	1.24	0.50	0.31	0.71	0.73
Other Social Services	1.63	2.03	0.80	0.51	0.12	0.13	0.13	0.18	0.16	1.07	0.14	0.49
Subsidy to Local Government Units	0.00	0.00	0.71	2.85	4.87	5.25	5.18	5.03	5.35	5.11	6.07	6.37
DEFENSE	7.52	6.51	6.34	6.60	7.22	7.00	7.39	7.44	5.94	5.55	5.68	5.04
Domestic Security	7.52	6.51	6.34	6.60	7.22	7.00	7.39	7.44	5.94	5.55	5.68	5.00
Peace and Order	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GENERAL PUBLIC SERVICES	13.05	13.84	14.10	16.34	17.44	18.08	17.63	19.04	18.82	18.79	18.25	17.73
General Administration	5.15	5.61	6.56	7.82	6.54	7.74	6.89	7.61	7.39	6.75	6.37	5.42
Public Order and Safety	5.49	5.50	5.68	5.57	5.68	5.54	6.13	6.79	6.81	7.32	7.03	7.04
Other General Public Services	2.41	2.73	0.17	0.79	1.51	0.81	0.68	0.81	0.58	0.85	0.25	0.45
Subsidy to Local Government Units	0.00	0.00	1.68	2.16	3.71	3.98	3.93	3.82	4.05	3.87	4.60	4.82
NET LENDING	2.11	1.69	2.30	0.86	0.96	1.78	0.99	0.28	0.28	0.09	0.55	0.06
DEBT SERVICE	31.51	31.82	30.13	30.37	27.63	23.96	19.58	18.39	15.85	20.39	18.31	19.98
Interest Payments	31.51	31.82	30.13	30.37	27.63	23.96	19.58	18.39	15.85	20.39	18.31	19.98
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Source: Department of Budget and Management, PHILIPPINES.

Note: * - 2000 figures were taken from General Appropriation Act.

IV. DEBT MANAGEMENT

Among the immediate problems being faced by Philippine economic managers is its large debt overhang, which remains unaddressed. Hence, debt management is crucial over the coming years. The question pertaining to the sustainability of public debt can be examined by comparing sustainable debt payments, which is expressed in terms of interest rates, with the actual “sustained expected interest rate.” Long-run solvency requires that the permanent primary surplus be equal to the following:²

$$ps^* = (r - n) d_t - (\text{phat} + n) m^*$$

where:	ps*	=	primary surplus
	r	=	long-term real interest rate
	d _t	=	debt/nominal GDP
	n	=	long-run real growth rate
	phat	=	“equilibrium” rate of inflation
	m*	=	inverse of base money velocity.

The equation can then be rearranged to estimate the interest rate r^* needed for long-term sustainability. This would reflect the combination of primary surplus, long-run GDP growth rate, inflation rate and interest rate needed for debt to be sustainable, assuming that base money velocity is fairly constant. Hence,

$$r^* = n + [ps + (\text{phat} + n) m^*] / d_t.$$

The resulting r^* is then compared with the actual interest rate (91-day Treasury bill rate). If the sustainable interest rate r^* is greater than the actual interest rate r , then the debt level is sustainable assuming that magnitudes persist over the long run. Hence, any policy that increases r^* enhances long-run solvency or debt sustainability.

² Following Montiel (1993).

Figures 7a to 7c show the Philippines struggle to manage the debt problem for the period 1975-1999. Figure 7a uses actual data for GDP growth and inflation rates; figure 7b uses average GDP growth and inflation rates for the entire period; and figure 7c uses average GDP and inflation rates for the same period, excluding the crisis years of 1984-1985 and 1997-1998. The graphs show that the long-run insolvency problem. This manifests how macroeconomic imbalances have deteriorated the country's ability to sustain its debt problems. Figure 7a shows how the country's fiscal position has been fluctuating from sustainable to unsustainable levels. However, figures 7b and 7c show a clearer picture of the country's long-run insolvency.

Figure 7a

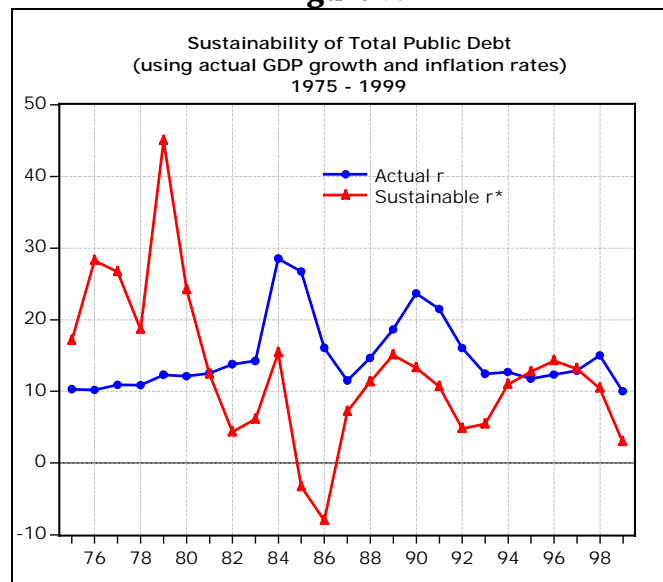
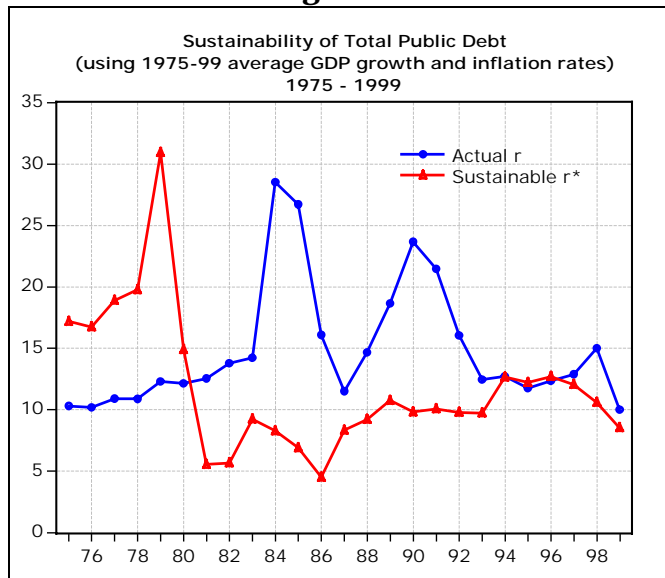
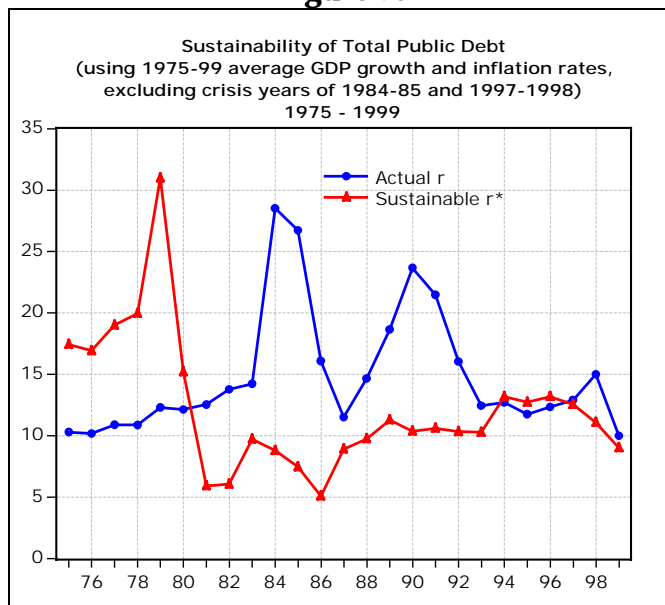


Figure 7b**Figure 7c**

Similar assessments were made for internal debt (figures 8a to 8c) and external debt (figures 9a to 9c). Although more fluctuations were observed, the unsustainability of public debt in more recent periods, for both internal and external, are consistently highlighted for all observations.

Figure 8a

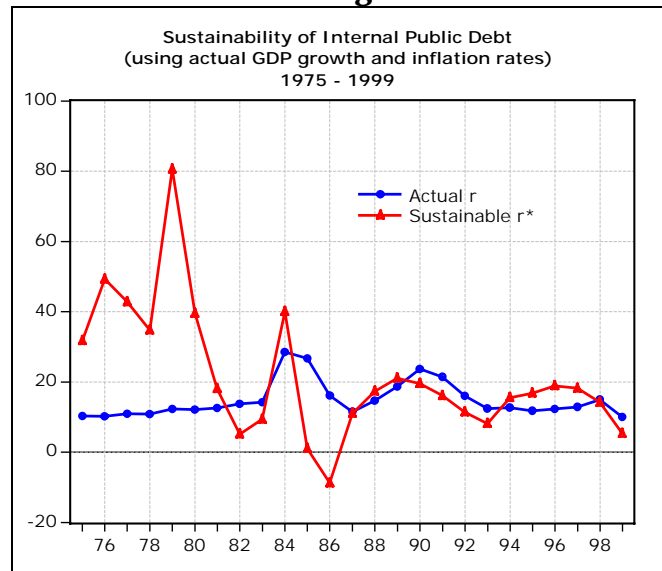


Figure 8b

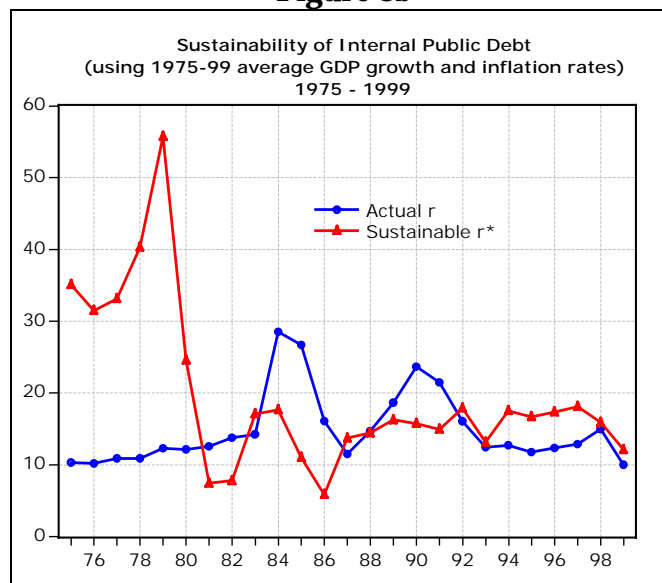


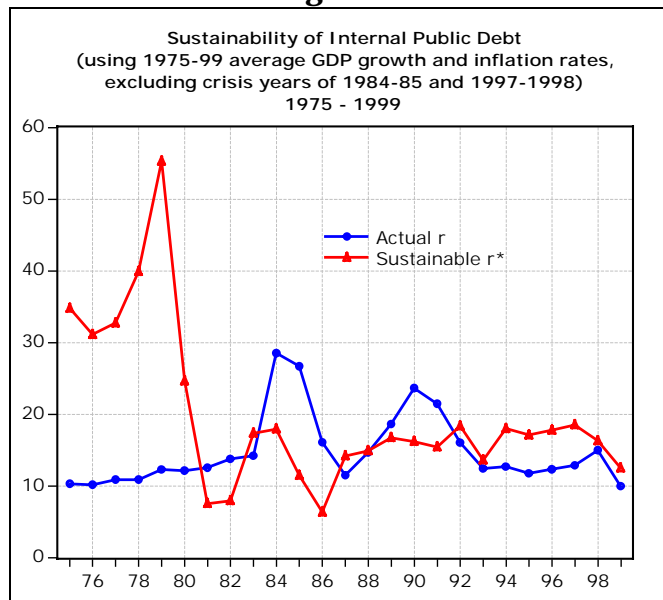
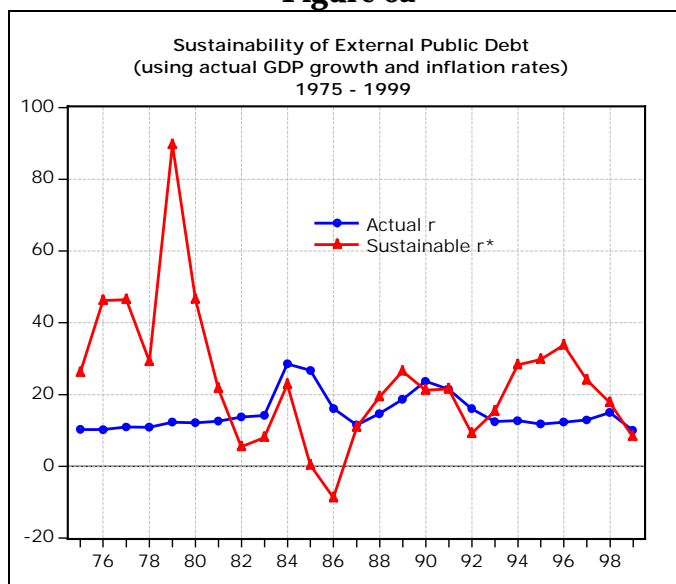
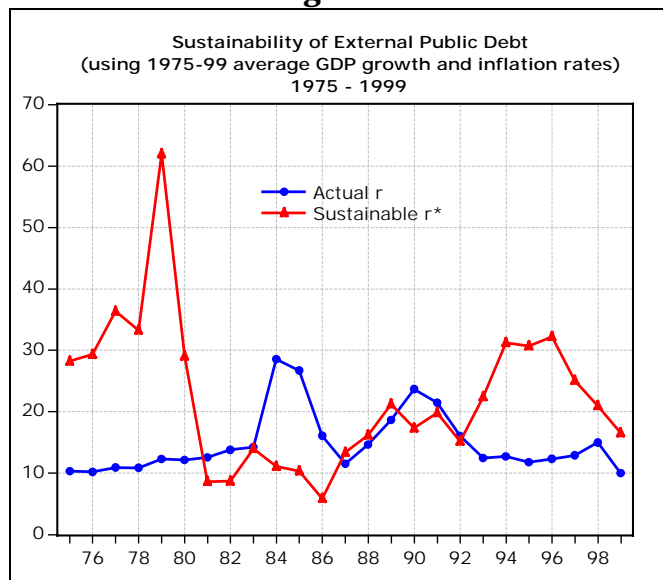
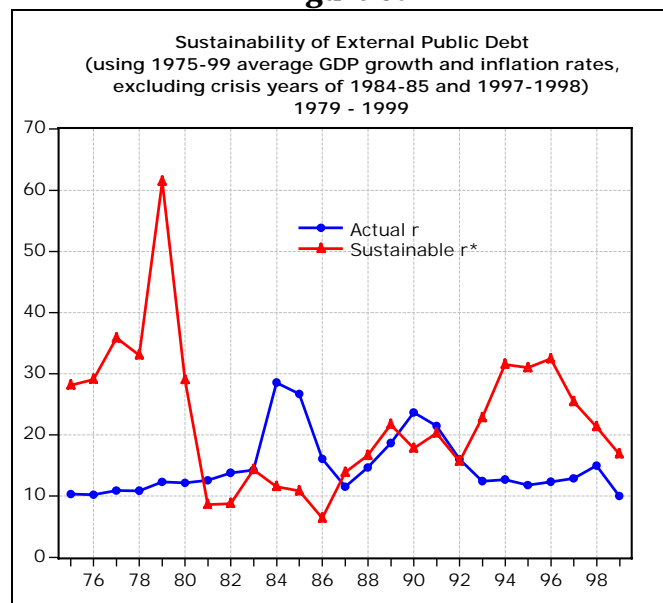
Figure 8c**Figure 9a**

Figure 9b**Figure 9c**

V. CONCLUSION

To raise its sustainable growth rate, the Philippines needs to close its fiscal gap. From a fairly well-behaved fiscal posture in the middle nineties, the government went into a deficit-spending indulgence in an attempt to stimulate the economy out of a mild recession. However, its prolonged inability to trigger a rapid recovery has put its fiscal stability in jeopardy.

The government's inability to improve tax collection (in fact, a deterioration) in the last two years has led to the disappearance of the primary surplus, resulting in an unsustainable public debt level. This basic inadequacy also partially explains the low saving rate of the country. This weakness extends to (and perhaps, is also caused by) the "distorted" public expenditure pattern --- a disproportionately large share to personnel services (70 percent) and much less to maintenance and operating expenses (MOOE, 20 percent) and capital expenditure (10 percent).

On the revenue side, the inability to collect direct taxes has resulted in an over-dependence on indirect taxes (now also declining, especially in some specific taxes). In order to increase its tax effort, the government has concentrated on finding other taxes that can be imposed on the sectors already paying taxes, courting the possibility of getting on the backward-bending section of the Laffer curve.

The structural reforms in the fiscal area are quite obvious --- but very difficult to implement, requiring political will that, up to now, has been hard to summon. The government must improve tax administration, collecting a few core taxes that are easy to understand and accept, abolish many complicated taxes. It must also reform the expenditure side, reducing personnel services drastically --- at the same time, perhaps, reducing red tape and bureaucratic lethargy. Agencies may have to be closed and the government taken out of some activities where its functions are unclear. Both thrusts will require tremendous effort and commitment. But only then can the fiscal area be conducive to sustainable rapid growth.

REFERENCES

- Diokno, Benjamin E., (1994), "Taxes and Public Sector Resource Mobilization in the Philippines," in Resource Mobilization and Resource Use in the Philippines, Fabella, R.V. and H. Sakai (eds.) (Institute of Developing Economies, Tokyo).
- _____, (1995), "Fiscal Policy for Sustainable Growth," in Towards Sustained Growth, Fabella, R. V. and H. Sakai (eds.). (Institute of Developing Economies, Tokyo).
- Fabella, Raul V. (1994), "Investment and the Allocation of Resources Under Macroeconomic Instability," in Resource Mobilization and Resource Use in the Philippines, Fabella, R.V. and H. Sakai (eds.). (Institute of Developing Economies, + + Tokyo).
- Montiel, Peter J. (1993). "Fiscal Aspects of Developing Country Debt Problems and Debt and Debt-Service Reduction Operations: A conceptual Approach," World Bank, Policy Research Working Paper No. WPS 1073, January.
- Paderanga, Cayetano Jr. (1995), "Debt Management in the Philippines," in Towards Sustained Growth, Fabella, R. V. and H. Sakai (eds.). (Institute of Developing Economies, Tokyo).

APPENDIX

Table for Figure 7a
Total Public Debt
Decomposition of the Sustainable Interest Rate
(Using actual figures for GDP growth and inflation rates)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.23	(0.72)	(3.12)	3.39	14.65	5.6	17.1	10.3
1976	0.22	(1.26)	(5.85)	5.46	25.29	8.8	28.3	10.2
1977	0.20	(1.34)	(6.73)	4.91	24.60	5.6	26.7	10.9
1978	0.24	(0.64)	(2.70)	3.75	15.73	5.2	18.6	10.9
1979	0.18	0.74	4.15	6.36	35.70	5.6	45.0	12.3
1980	0.32	(0.45)	(1.42)	6.30	19.95	5.1	24.2	12.1
1981	0.37	(3.45)	(9.25)	6.16	16.52	3.4	12.4	12.5
1982	0.43	(3.42)	(8.02)	3.81	8.93	3.6	4.3	13.8
1983	0.67	(0.52)	(0.79)	2.20	3.29	1.9	6.1	14.2
1984	0.69	0.07	0.10	9.21	13.42	(7.3)	15.4	28.5
1985	1.09	0.61	0.56	3.75	3.44	(7.3)	(3.3)	26.7
1986	1.34	(1.69)	(1.26)	0.72	0.54	3.4	(8.0)	16.1
1987	1.25	2.96	2.38	1.74	1.40	4.3	7.2	11.5
1988	1.08	2.84	2.63	4.71	4.37	6.8	11.3	14.7
1989	1.03	3.80	3.67	4.80	4.64	6.2	15.1	18.6
1990	1.09	3.15	2.89	4.55	4.17	3.0	13.3	23.7
1991	1.16	3.89	3.36	4.98	4.30	(0.6)	10.7	21.5
1992	1.35	4.70	3.49	2.55	1.89	0.3	4.8	16.0
1993	1.30	3.70	2.85	2.93	2.26	2.1	5.5	12.4
1994	1.15	5.63	4.89	4.58	3.97	4.4	11.0	12.7
1995	1.14	4.39	3.86	5.11	4.50	4.8	12.7	11.8
1996	1.03	3.81	3.70	5.99	5.82	5.8	14.3	12.3
1997	1.10	3.28	2.98	4.86	4.42	5.2	13.2	12.9
1998	1.10	1.86	1.69	3.92	3.56	(0.6)	10.4	15.0
1999	1.22	(0.18)	(0.15)	4.53	3.70	3.3	3.0	10.0

Table for Figure 7b
Total Public Debt
Decomposition of the Sustainable Interest Rate
(Using 1975-1999 average figures for GDP growth and inflation rates)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.23	(0.72)	(3.12)	3.97	17.17	3.1	17.2	10.3
1976	0.22	(1.26)	(5.85)	4.20	19.45	3.1	16.8	10.2
1977	0.20	(1.34)	(6.73)	4.49	22.48	3.1	18.9	10.9
1978	0.24	(0.64)	(2.70)	4.61	19.33	3.1	19.8	10.9
1979	0.18	0.74	4.15	4.21	23.64	3.1	30.9	12.3
1980	0.32	(0.45)	(1.42)	4.15	13.15	3.1	14.9	12.1
1981	0.37	(3.45)	(9.25)	4.35	11.65	3.1	5.6	12.5
1982	0.43	(3.42)	(8.02)	4.49	10.54	3.1	5.7	13.8
1983	0.67	(0.52)	(0.79)	4.59	6.88	3.1	9.2	14.2
1984	0.69	0.07	0.10	3.46	5.04	3.1	8.3	28.5
1985	1.09	0.61	0.56	3.48	3.19	3.1	6.9	26.7
1986	1.34	(1.69)	(1.26)	3.52	2.63	3.1	4.5	16.1
1987	1.25	2.96	2.38	3.52	2.82	3.1	8.3	11.5
1988	1.08	2.84	2.63	3.68	3.42	3.1	9.2	14.7
1989	1.03	3.80	3.67	4.07	3.93	3.1	10.8	18.6
1990	1.09	3.15	2.89	4.14	3.79	3.1	9.8	23.7
1991	1.16	3.89	3.36	4.13	3.56	3.1	10.1	21.5
1992	1.35	4.70	3.49	4.23	3.14	3.1	9.8	16.0
1993	1.30	3.70	2.85	4.83	3.72	3.1	9.7	12.4
1994	1.15	5.63	4.89	5.32	4.62	3.1	12.7	12.7
1995	1.14	4.39	3.86	5.92	5.21	3.1	12.2	11.8
1996	1.03	3.81	3.70	6.02	5.84	3.1	12.7	12.3
1997	1.10	3.28	2.98	6.52	5.92	3.1	12.0	12.9
1998	1.10	1.86	1.69	6.34	5.75	3.1	10.6	15.0
1999	1.22	(0.18)	(0.15)	6.76	5.52	3.1	8.5	10.0

Table for Figure 7c
Total Public Debt
Decomposition of the Sustainable Interest Rate
(Using 1975-1999 average figures for GDP growth and inflation rate, excluding 84-85 & 97-98)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.23	(0.72)	(3.12)	3.88	16.76	3.8	17.4	10.3
1976	0.22	(1.26)	(5.85)	4.10	18.99	3.8	16.9	10.2
1977	0.20	(1.34)	(6.73)	4.38	21.94	3.8	19.0	10.9
1978	0.24	(0.64)	(2.70)	4.50	18.87	3.8	20.0	10.9
1979	0.18	0.74	4.15	4.11	23.07	3.8	31.0	12.3
1980	0.32	(0.45)	(1.42)	4.06	12.84	3.8	15.2	12.1
1981	0.37	(3.45)	(9.25)	4.24	11.37	3.8	5.9	12.5
1982	0.43	(3.42)	(8.02)	4.39	10.28	3.8	6.1	13.8
1983	0.67	(0.52)	(0.79)	4.48	6.72	3.8	9.7	14.2
1984	0.69	0.07	0.10	3.38	4.92	3.8	8.8	28.5
1985	1.09	0.61	0.56	3.40	3.12	3.8	7.5	26.7
1986	1.34	(1.69)	(1.26)	3.43	2.56	3.8	5.1	16.1
1987	1.25	2.96	2.38	3.43	2.75	3.8	8.9	11.5
1988	1.08	2.84	2.63	3.59	3.33	3.8	9.7	14.7
1989	1.03	3.80	3.67	3.97	3.84	3.8	11.3	18.6
1990	1.09	3.15	2.89	4.04	3.70	3.8	10.4	23.7
1991	1.16	3.89	3.36	4.03	3.47	3.8	10.6	21.5
1992	1.35	4.70	3.49	4.13	3.06	3.8	10.3	16.0
1993	1.30	3.70	2.85	4.72	3.64	3.8	10.3	12.4
1994	1.15	5.63	4.89	5.20	4.51	3.8	13.2	12.7
1995	1.14	4.39	3.86	5.78	5.09	3.8	12.7	11.8
1996	1.03	3.81	3.70	5.88	5.70	3.8	13.2	12.3
1997	1.10	3.28	2.98	6.36	5.78	3.8	12.5	12.9
1998	1.10	1.86	1.69	6.19	5.61	3.8	11.1	15.0
1999	1.22	(0.18)	(0.15)	6.60	5.39	3.8	9.0	10.0

Table for Figure 8a
Total Internal Debt
Decomposition of the Sustainable Interest Rate
(Using actual figures for GDP growth and inflation rates)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.10	(0.72)	(7.09)	3.39	33.30	5.6	31.8	10.3
1976	0.10	(1.26)	(12.18)	5.46	52.68	8.8	49.3	10.2
1977	0.10	(1.34)	(12.80)	4.91	46.81	5.6	42.8	10.9
1978	0.11	(0.64)	(6.03)	3.75	35.16	5.2	34.7	10.9
1979	0.09	0.74	7.85	6.36	67.62	5.6	80.6	12.3
1980	0.17	(0.45)	(2.59)	6.30	36.49	5.1	39.5	12.1
1981	0.21	(3.45)	(16.47)	6.16	29.41	3.4	18.1	12.5
1982	0.23	(3.42)	(14.71)	3.81	16.37	3.6	5.1	13.8
1983	0.29	(0.52)	(1.80)	2.20	7.54	1.9	9.4	14.2
1984	0.24	0.07	0.27	9.21	37.92	(7.3)	40.1	28.5
1985	0.52	0.61	1.18	3.75	7.21	(7.3)	1.1	26.7
1986	0.67	(1.69)	(2.52)	0.72	1.07	3.4	(8.8)	16.1
1987	0.61	2.96	4.83	1.74	2.84	4.3	11.1	11.5
1988	0.58	2.84	4.91	4.71	8.16	6.8	17.4	14.7
1989	0.60	3.80	6.33	4.80	8.00	6.2	21.1	18.6
1990	0.58	3.15	5.44	4.55	7.87	3.0	19.5	23.7
1991	0.68	3.89	5.73	4.98	7.33	(0.6)	16.1	21.5
1992	0.61	4.70	7.77	2.55	4.21	0.3	11.4	16.0
1993	0.86	3.70	4.33	2.93	3.43	2.1	8.1	12.4
1994	0.76	5.63	7.39	4.58	6.01	4.4	15.5	12.7
1995	0.76	4.39	5.76	5.11	6.70	4.8	16.9	11.8
1996	0.69	3.81	5.51	5.99	8.66	5.8	18.9	12.3
1997	0.65	3.28	5.01	4.86	7.43	5.2	18.2	12.9
1998	0.64	1.86	2.89	3.92	6.10	(0.6)	14.2	15.0
1999	0.73	(0.18)	(0.24)	4.53	6.18	3.3	5.4	10.0

Table for Figure 8b
Total Internal Debt
Decomposition of the Sustainable Interest Rate
(Using 1975-1999 average figures for GDP growth and inflation rates)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.10	(0.72)	(7.09)	3.97	39.03	3.1	35.1	10.3
1976	0.10	(1.26)	(12.18)	4.20	40.52	3.1	31.5	10.2
1977	0.10	(1.34)	(12.80)	4.49	42.78	3.1	33.1	10.9
1978	0.11	(0.64)	(6.03)	4.61	43.21	3.1	40.3	10.9
1979	0.09	0.74	7.85	4.21	44.76	3.1	55.8	12.3
1980	0.17	(0.45)	(2.59)	4.15	24.05	3.1	24.6	12.1
1981	0.21	(3.45)	(16.47)	4.35	20.75	3.1	7.4	12.5
1982	0.23	(3.42)	(14.71)	4.49	19.33	3.1	7.8	13.8
1983	0.29	(0.52)	(1.80)	4.59	15.75	3.1	17.1	14.2
1984	0.24	0.07	0.27	3.46	14.25	3.1	17.7	28.5
1985	0.52	0.61	1.18	3.48	6.68	3.1	11.0	26.7
1986	0.67	(1.69)	(2.52)	3.52	5.25	3.1	5.9	16.1
1987	0.61	2.96	4.83	3.52	5.74	3.1	13.7	11.5
1988	0.58	2.84	4.91	3.68	6.37	3.1	14.4	14.7
1989	0.60	3.80	6.33	4.07	6.78	3.1	16.3	18.6
1990	0.58	3.15	5.44	4.14	7.15	3.1	15.7	23.7
1991	0.68	3.89	5.73	4.13	6.07	3.1	14.9	21.5
1992	0.61	4.70	7.77	4.23	6.99	3.1	17.9	16.0
1993	0.86	3.70	4.33	4.83	5.65	3.1	13.1	12.4
1994	0.76	5.63	7.39	5.32	6.99	3.1	17.5	12.7
1995	0.76	4.39	5.76	5.92	7.77	3.1	16.7	11.8
1996	0.69	3.81	5.51	6.02	8.70	3.1	17.4	12.3
1997	0.65	3.28	5.01	6.52	9.96	3.1	18.1	12.9
1998	0.64	1.86	2.89	6.34	9.86	3.1	15.9	15.0
1999	0.73	(0.18)	(0.24)	6.76	9.22	3.1	12.1	10.0

Table for Figure 8c
Total Internal Debt
Decomposition of the Sustainable Interest Rate
(Using 1975-1999 average figures for GDP growth and inflation rate, excluding 84-85 & 97-98)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.10	(0.72)	(7.09)	3.88	38.10	3.8	34.8	10.3
1976	0.10	(1.26)	(12.18)	4.10	39.55	3.8	31.2	10.2
1977	0.10	(1.34)	(12.80)	4.38	41.75	3.8	32.7	10.9
1978	0.11	(0.64)	(6.03)	4.50	42.17	3.8	39.9	10.9
1979	0.09	0.74	7.85	4.11	43.69	3.8	55.3	12.3
1980	0.17	(0.45)	(2.59)	4.06	23.47	3.8	24.7	12.1
1981	0.21	(3.45)	(16.47)	4.24	20.25	3.8	7.6	12.5
1982	0.23	(3.42)	(14.71)	4.39	18.86	3.8	7.9	13.8
1983	0.29	(0.52)	(1.80)	4.48	15.37	3.8	17.4	14.2
1984	0.24	0.07	0.27	3.38	13.91	3.8	18.0	28.5
1985	0.52	0.61	1.18	3.40	6.52	3.8	11.5	26.7
1986	0.67	(1.69)	(2.52)	3.43	5.12	3.8	6.4	16.1
1987	0.61	2.96	4.83	3.43	5.60	3.8	14.2	11.5
1988	0.58	2.84	4.91	3.59	6.22	3.8	14.9	14.7
1989	0.60	3.80	6.33	3.97	6.62	3.8	16.7	18.6
1990	0.58	3.15	5.44	4.04	6.98	3.8	16.2	23.7
1991	0.68	3.89	5.73	4.03	5.93	3.8	15.4	21.5
1992	0.61	4.70	7.77	4.13	6.82	3.8	18.4	16.0
1993	0.86	3.70	4.33	4.72	5.52	3.8	13.6	12.4
1994	0.76	5.63	7.39	5.20	6.82	3.8	18.0	12.7
1995	0.76	4.39	5.76	5.78	7.58	3.8	17.1	11.8
1996	0.69	3.81	5.51	5.88	8.49	3.8	17.8	12.3
1997	0.65	3.28	5.01	6.36	9.73	3.8	18.5	12.9
1998	0.64	1.86	2.89	6.19	9.63	3.8	16.3	15.0
1999	0.73	(0.18)	(0.24)	6.60	9.00	3.8	12.5	10.0

Table for Figure 9a
Total External Debt
Decomposition of the Sustainable Interest Rate
(Using actual figures for GDP growth and inflation rates)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.13	(0.72)	(5.57)	3.39	26.15	5.6	26.1	10.3
1976	0.11	(1.26)	(11.25)	5.46	48.65	8.8	46.2	10.2
1977	0.09	(1.34)	(14.18)	4.91	51.85	5.6	46.5	10.9
1978	0.13	(0.64)	(4.88)	3.75	28.47	5.2	29.2	10.9
1979	0.08	0.74	8.79	6.36	75.65	5.6	89.6	12.3
1980	0.14	(0.45)	(3.13)	6.30	44.03	5.1	46.5	12.1
1981	0.16	(3.45)	(21.10)	6.16	37.69	3.4	21.7	12.5
1982	0.19	(3.42)	(17.63)	3.81	19.63	3.6	5.4	13.8
1983	0.38	(0.52)	(1.40)	2.20	5.85	1.9	8.1	14.2
1984	0.44	0.07	0.15	9.21	20.77	(7.3)	22.8	28.5
1985	0.57	0.61	1.08	3.75	6.59	(7.3)	0.3	26.7
1986	0.67	(1.69)	(2.53)	0.72	1.08	3.4	(8.8)	16.1
1987	0.63	2.96	4.68	1.74	2.75	4.3	10.8	11.5
1988	0.50	2.84	5.67	4.71	9.42	6.8	19.4	14.7
1989	0.43	3.80	8.74	4.80	11.05	6.2	26.5	18.6
1990	0.51	3.15	6.14	4.55	8.88	3.0	21.2	23.7
1991	0.48	3.89	8.10	4.98	10.37	(0.6)	21.5	21.5
1992	0.74	4.70	6.33	2.55	3.43	0.3	9.2	16.0
1993	0.44	3.70	8.37	2.93	6.63	2.1	15.3	12.4
1994	0.39	5.63	14.43	4.58	11.73	4.4	28.3	12.7
1995	0.37	4.39	11.74	5.11	13.66	4.8	29.8	11.8
1996	0.34	3.81	11.27	5.99	17.72	5.8	33.8	12.3
1997	0.45	3.28	7.35	4.86	10.90	5.2	24.0	12.9
1998	0.46	1.86	4.05	3.92	8.54	(0.6)	17.8	15.0
1999	0.49	(0.18)	(0.37)	4.53	9.24	3.3	8.3	10.0

Table for Figure 9b
Total External Debt
Decomposition of the Sustainable Interest Rate
(Using 1975-1999 average figures for GDP growth and inflation rates)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.13	(0.72)	(5.57)	3.97	30.65	3.1	28.2	10.3
1976	0.11	(1.26)	(11.25)	4.20	37.42	3.1	29.3	10.2
1977	0.09	(1.34)	(14.18)	4.49	47.39	3.1	36.4	10.9
1978	0.13	(0.64)	(4.88)	4.61	34.98	3.1	33.2	10.9
1979	0.08	0.74	8.79	4.21	50.08	3.1	62.0	12.3
1980	0.14	(0.45)	(3.13)	4.15	29.02	3.1	29.0	12.1
1981	0.16	(3.45)	(21.10)	4.35	26.58	3.1	8.6	12.5
1982	0.19	(3.42)	(17.63)	4.49	23.17	3.1	8.7	13.8
1983	0.38	(0.52)	(1.40)	4.59	12.22	3.1	14.0	14.2
1984	0.44	0.07	0.15	3.46	7.81	3.1	11.1	28.5
1985	0.57	0.61	1.08	3.48	6.11	3.1	10.3	26.7
1986	0.67	(1.69)	(2.53)	3.52	5.26	3.1	5.9	16.1
1987	0.63	2.96	4.68	3.52	5.56	3.1	13.4	11.5
1988	0.50	2.84	5.67	3.68	7.36	3.1	16.2	14.7
1989	0.43	3.80	8.74	4.07	9.37	3.1	21.3	18.6
1990	0.51	3.15	6.14	4.14	8.07	3.1	17.4	23.7
1991	0.48	3.89	8.10	4.13	8.59	3.1	19.8	21.5
1992	0.74	4.70	6.33	4.23	5.70	3.1	15.2	16.0
1993	0.44	3.70	8.37	4.83	10.93	3.1	22.4	12.4
1994	0.39	5.63	14.43	5.32	13.65	3.1	31.2	12.7
1995	0.37	4.39	11.74	5.92	15.83	3.1	30.7	11.8
1996	0.34	3.81	11.27	6.02	17.80	3.1	32.2	12.3
1997	0.45	3.28	7.35	6.52	14.61	3.1	25.1	12.9
1998	0.46	1.86	4.05	6.34	13.80	3.1	21.0	15.0
1999	0.49	(0.18)	(0.37)	6.76	13.78	3.1	16.6	10.0

Table for Figure 9c
Total External Debt
Decomposition of the Sustainable Interest Rate
(Using 1975-1999 average figures for GDP growth and inflation rate, excluding 84-85 & 97-98)

Year	DEBT/GDP	PS/GDP		(Phat + GDPgr)*M		GDPgr	REAL r	REAL TB RATE
	(1)	(2)	(3) = (2)/(1)	(4)	(5)=(4)/(1)	(6)	(7)=(3)+(5)+(6)	
1975	0.13	(0.72)	(5.57)	3.88	29.92	3.8	28.1	10.3
1976	0.11	(1.26)	(11.25)	4.10	36.52	3.8	29.1	10.2
1977	0.09	(1.34)	(14.18)	4.38	46.26	3.8	35.9	10.9
1978	0.13	(0.64)	(4.88)	4.50	34.15	3.8	33.0	10.9
1979	0.08	0.74	8.79	4.11	48.88	3.8	61.5	12.3
1980	0.14	(0.45)	(3.13)	4.06	28.33	3.8	29.0	12.1
1981	0.16	(3.45)	(21.10)	4.24	25.95	3.8	8.6	12.5
1982	0.19	(3.42)	(17.63)	4.39	22.62	3.8	8.8	13.8
1983	0.38	(0.52)	(1.40)	4.48	11.93	3.8	14.3	14.2
1984	0.44	0.07	0.15	3.38	7.62	3.8	11.6	28.5
1985	0.57	0.61	1.08	3.40	5.96	3.8	10.8	26.7
1986	0.67	(1.69)	(2.53)	3.43	5.13	3.8	6.4	16.1
1987	0.63	2.96	4.68	3.43	5.42	3.8	13.9	11.5
1988	0.50	2.84	5.67	3.59	7.19	3.8	16.6	14.7
1989	0.43	3.80	8.74	3.97	9.15	3.8	21.7	18.6
1990	0.51	3.15	6.14	4.04	7.88	3.8	17.8	23.7
1991	0.48	3.89	8.10	4.03	8.38	3.8	20.3	21.5
1992	0.74	4.70	6.33	4.13	5.56	3.8	15.7	16.0
1993	0.44	3.70	8.37	4.72	10.66	3.8	22.8	12.4
1994	0.39	5.63	14.43	5.20	13.33	3.8	31.5	12.7
1995	0.37	4.39	11.74	5.78	15.45	3.8	31.0	11.8
1996	0.34	3.81	11.27	5.88	17.37	3.8	32.4	12.3
1997	0.45	3.28	7.35	6.36	14.26	3.8	25.4	12.9
1998	0.46	1.86	4.05	6.19	13.47	3.8	21.3	15.0
1999	0.49	(0.18)	(0.37)	6.60	13.45	3.8	16.9	10.0