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### III. FISCAL POLICY DURING DOWNTURNS AND THE PROS AND CONS OF ALTERNATIVE FISCAL RULES<sup>20</sup>

*To help formulate an appropriate fiscal response to recent external shocks, the paper explores the following issues: (i) automatic stabilizers, which are found to be small in the Philippines; (ii) the scope for discretionary countercyclical fiscal policy and concludes that, if contemplated, measures should be well-targeted, temporary, transparent, and timely; and (iii) anchoring fiscal policy through the introduction of a formalized fiscal rule and points out that such a framework should be flexible to accommodate (external) shocks while maintaining favorable debt dynamics.*

#### A. Introduction

53. **The Philippines recently experienced a negative terms-of-trade shock from rising commodity prices and spillovers from the global financial turmoil.** The authorities resisted pressures to repeal the VAT, or adjust its rate, on oil in response to the rising commodity prices. Instead, they opted for personal income tax relief and expansion of (conditional) cash transfers, resulting in a modest increase in pro-poor spending. Moreover, the tariff on rice imports was reduced, while the import tariff on oil now depends on the oil price. Further to this, the National Food Authority continued to sell rice to the poor at below-market-prices, increasing its deficit to 1 percent of GDP from a balanced position in 2007. The authorities opted for implementing a fiscal stimulus in 2009 to dampen the slowing economy from the spillovers of the financial turmoil, delaying the goal of balancing the budget to the original target date of 2010.

54. **To help answer how fiscal policy should respond to such adverse external shocks,** the paper asks the following questions:

- How large are automatic stabilizers in the Philippines and to what extent has fiscal policy been pro- or countercyclical?
- What is the scope for countercyclical discretionary fiscal policy?
- What are the pros and cons of alternative fiscal rules?

#### B. The Role of Automatic Stabilizers in the Philippines

55. **Automatic stabilizers normally refer to the “automatic” response of revenues and expenditures to economic cycles.** In order to determine the magnitude of automatic stabilizers, the actual fiscal balance is compared with the fiscal balance prevailing when the economy operates at full capacity (i.e., the cyclically adjusted fiscal balance). The primary cyclically adjusted balance in period  $t$  ( $PCAB_t$ ) is given by,

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<sup>20</sup> Prepared by Dennis Botman.

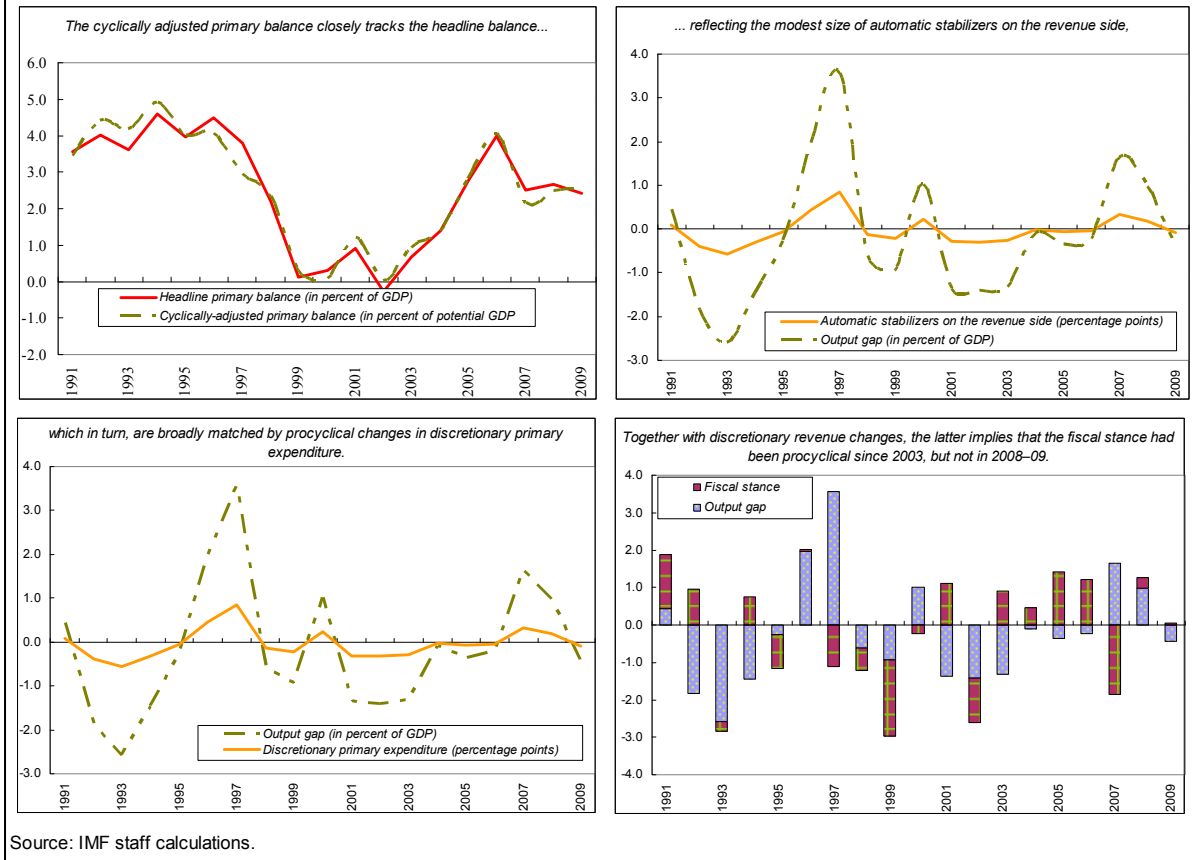
$$PCAB_t = T_t \left( \frac{Y_t^*}{Y_t} \right)^\alpha - PE_t \left( \frac{Y_t^*}{Y_t} \right)^\beta + OTR_t$$

where  $T_t$  denotes tax and nontax revenue (excluding grants, operations associated with the central-bank board of liquidators, and Bureau of Customs' noncash receipts),  $Y_t^*$  denotes potential real GDP,  $Y_t$  denotes actual real GDP,  $PE_t$  denotes primary expenditure, and  $OTR_t$  refers to other revenues (CBBOL, grants, and noncash receipts), which are assumed to not change in response to the cycle. Potential output is determined through a Hodrick-Prescott filter of real GDP data from 1989 to 2013. The parameters  $\alpha$  and  $\beta$  denote the elasticity of revenue and primary expenditure, respectively, with respect to the output gap.

56. **Automatic stabilizers are found to be modest in the Philippines, in line with results found for many emerging economies.** For central government operations in the Philippines, it is reasonable to assume that automatic stabilizers on the expenditure side are equal to zero; that is  $\beta=0$ . As we argue below, this does not imply that primary expenditure is unrelated to the economic cycle, but that any relation with the output gap stems from discretionary decision rather than the functioning of automatic stabilizers. In contrast, the revenue elasticity,  $\alpha$ , is taken as a measure of automatic stabilizers and is obtained using ordinary least squares estimation based on annual data from 1990 to 2007, with all variables expressed in log first differences:

$$T_t = c + \eta T_{t-1} + \alpha \left( \frac{Y_t}{Y_t^*} \right)$$

The estimate for  $\alpha$  is significant and equal to 1.44 and alternative specifications for tax and nontax revenue separately did not yield significant coefficient estimates. The first panel in Figure III.1 shows the resulting cyclically adjusted primary balance as a share of potential GDP. As can be observed, despite the relatively large estimate for  $\alpha$ , automatic stabilizers are small in the Philippines. This largely reflects the low GDP share of revenues: although tax revenue increases when output exceeds potential output, it has a relatively small impact on the tax-to-GDP ratio. Indeed, evidence suggests that automatic stabilizers tend to be smaller in emerging market economies. One important reason for this finding is the relatively smaller role of government in the economy in these countries: an increase in the size of government could dampen output volatility—see Fatás and Mihov (2001), although proper design matters potentially even more than the size as argued in IMF, *World Economic Outlook* (2008a).

**Figure III.1. The Fiscal Stance Over the Cycle**

57. **Discretionary changes in primary expenditure have broadly countered cyclical changes in revenue, implying that the deficit has been broadly neutral to the economic cycle.** To provide insight into the role of discretionary changes in primary expenditure over the cycle, we estimate,

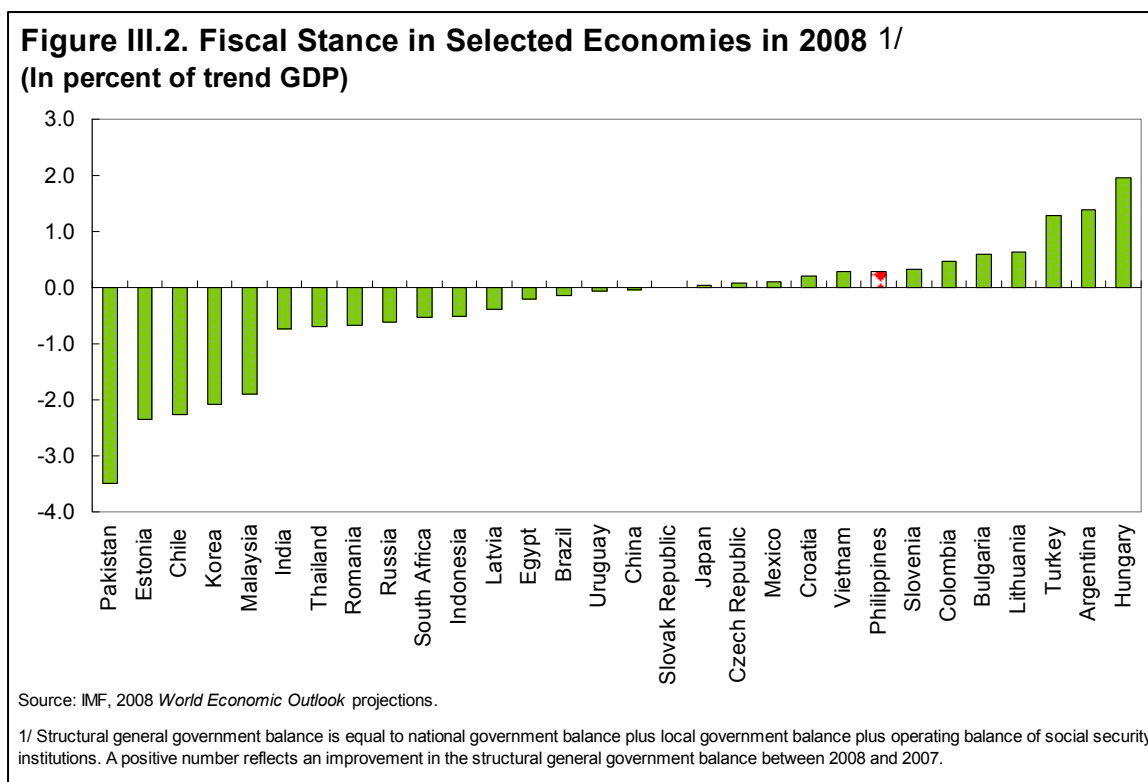
$$PE_t = c + \eta PE_{t-1} + \beta \left( \frac{Y_t}{Y_t^*} \right)$$

Alternative specifications for interest payments or total expenditure yielded no significant association with the output gap measure. The estimate for  $\beta=1.51$  and is significant. This elasticity is next used to calculate the difference between a “cyclically adjusted” primary expenditure as a share of potential GDP and headline primary expenditure as a share of actual GDP (third panel Figure III.1). This measure is taken as the discretionary response of fiscal policy to the output gap. Discretionary primary spending closely follows automatic stabilizers on the revenue side, which may reflect that expenditure compression took place, despite a negative output gap, because the high debt-to-revenue ratio required fiscal consolidation. A second reason could be related to the role of unprogrammed funds in the

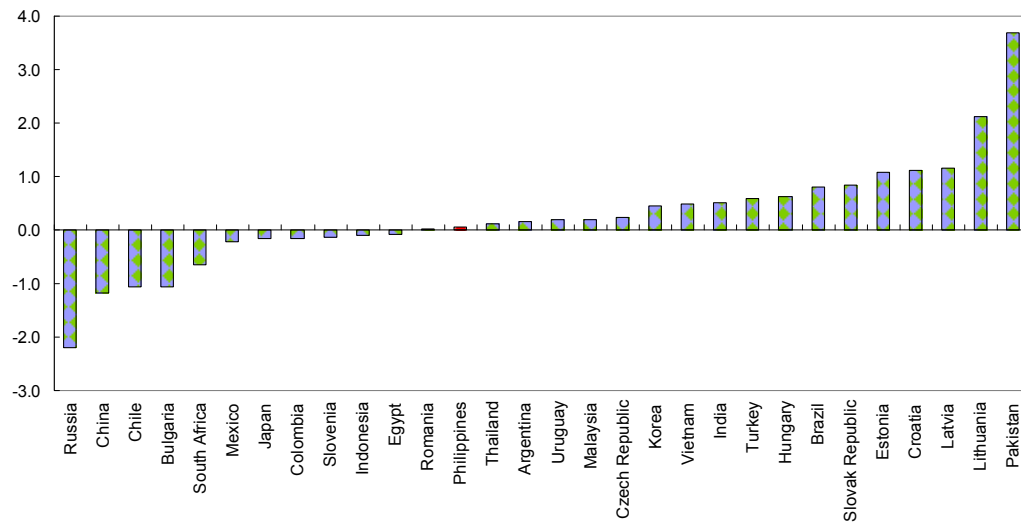
Philippines, which can only be released if higher-than-anticipated revenue (or financing) has been collected. A third reason could be remaining weaknesses in cash management.

### C. Is There A Role For Discretionary Fiscal Measures?

58. **The fiscal stance has been mostly procyclical in the Philippines in the past, but is projected to be countercyclical in 2008 and 2009.** The fiscal stance is defined as the change in  $PCAB_t$ . A negative correlation between the fiscal stance and the output gap indicates procyclicality. Interestingly, the Philippines has generally conducted procyclical fiscal policy (fourth panel, Figure III.1). In 2008, the Philippines is among the few countries where the cyclically adjusted balance is projected to improve (excluding privatization receipts, Figure III.2), partly because weakness in absorptive capacity constrains capital spending. For 2009, the Philippines is projected to have a broadly neutral fiscal stance (Figure III.3). Reforms to exemption levels in personal income taxation, the Personal Equity and Retirement Act (PERA), the scheduled reduction in the corporate income tax rate from 35 percent to 30 percent will largely be offset by a decline in discretionary primary spending.



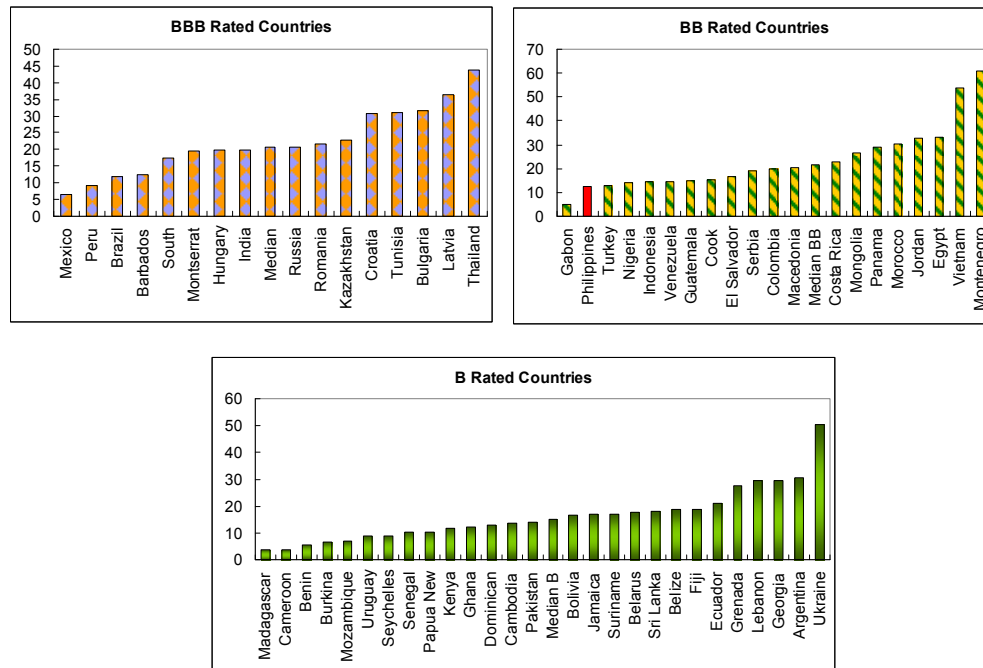
**Figure III.3. Fiscal Stance in Selected Economies in 2009 1/**  
(In percent of trend GDP)



Source: IMF, latest *World Economic Outlook* projections.

1/ Structural general government balance is equal to national government balance plus local government balance plus operating balance of social security institutions. A positive number reflects an improvement in the structural general government balance between 2009 and 2008.

**Figure III.4. Implicit Financial Contingent Liabilities**  
(In percent of GDP)



Source: Standard and Poor's.

59. **The IMF's *World Economic Outlook* (WEO) provides evidence on fiscal multipliers, derived from various empirical methods and from model-based estimates.**<sup>21</sup>

The model-based estimates suggest that public expenditure is associated with a higher fiscal multiplier, exceeding those on taxes. For example, public investment has been found to have a multiplier of about twice the size of multipliers from income taxes in Japan during the first three years of the reform—see IMF (2003). The recent analysis in the WEO publication (2008a), also suggests that public investment has the largest positive effect on output if implemented efficiently and immediately.

60. **Among tax instruments, model-based estimates suggest that reducing corporate income taxes has the largest positive effect on output.** It is followed by personal income tax, payroll taxes, and indirect tax such as the VAT. However, these rankings do not necessarily imply that these are desirable from an equity point of view. Increasing current expenditure, for example on (conditional) cash transfers, has a multiplier in between those of higher public investment and reducing tax rates (see Botman and Kumar, 2006, Baylor 2005, and IMF, 2008a).

61. **Recent evidence suggest that multipliers could be larger in emerging markets than in advanced economies, but the positive effects on growth are short lived.** In general, multipliers depend not only on the type of fiscal instrument used, but also on the interaction with monetary policy, the extent of market rigidities (more rigidities in goods and labor markets implies larger multipliers), globalization and openness (the less integrated the economy, the smaller the share of the stimulus that falls on imports), and financial innovation (more credit constraints imply larger multipliers). The WEO finds a stronger multiplier in emerging markets economies than in advanced economies, particularly for an expenditure-based stimulus, but the effect quickly turns negative.

62. **The reason for the short duration of the effects of fiscal stimulus could be related to higher debt or widening spreads.** The longer debt remains high, the larger the crowding out effects on private consumption and investment, highlighting the importance that stimulus should be provided only temporarily. In addition, spreads could increase, implying gradual evaporation of the stimulus, which is particularly important for a country like the Philippines, where investor risk aversion is closely tied to the revenue effort. Indeed, if spreads increase markedly, multipliers could turn negative. Including a market-risk-premium in the WEO simulations reduces multipliers by 10–20 percent, depending how strong the risk premium responds to the debt-to-GDP ratio (Box III.1). This is particularly true for revenue-based fiscal stimulus. Multipliers are also found to be lower during downturns. This is particularly the case for a subset of countries with high initial debt levels.

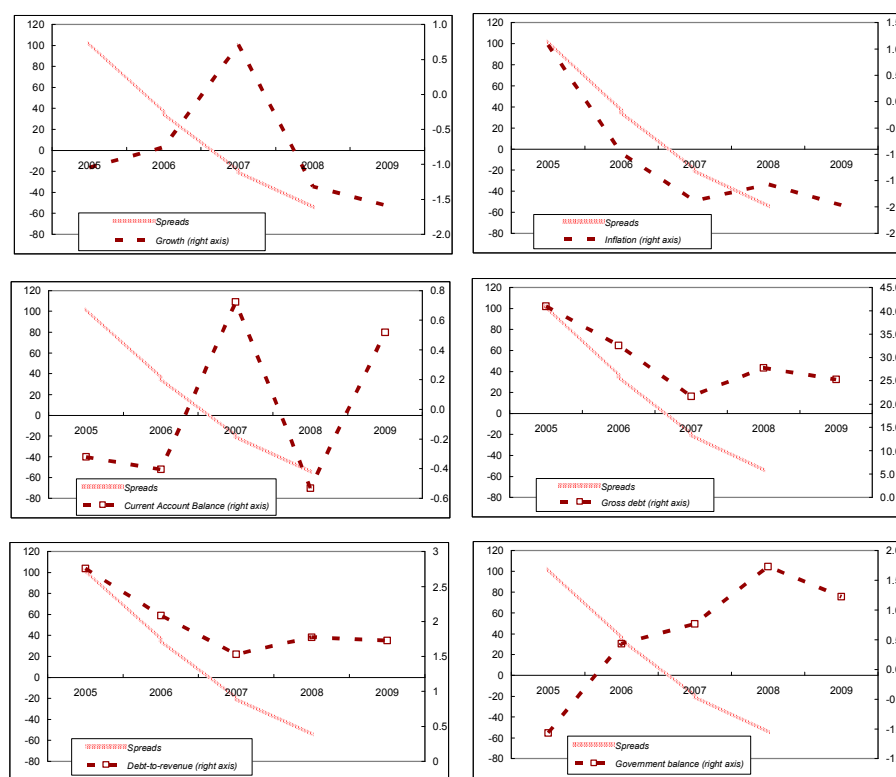
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<sup>21</sup> International Monetary Fund, 2009, “Fiscal Policy as a Countercyclical Tool,” *World Economic Outlook*, Chapter 5, October (Washington DC).

### Box III.1. What Drives Country Risk Premiums?

**Evidence on the determinants of risk premia is mixed.** In general, individual country spreads are mostly determined by movements in the overall EMBI (external factors), liquidity risks, and market risks. Absent major changes in fundamentals, especially in the recent period (since 2000), macroeconomic variables explain little variation in spreads on bonds issued by emerging markets. In contrast, Ferucci (2003) argues that a debtor country's fundamentals ("credit risk") and external liquidity conditions are important determinants of market spreads. Eichengreen and Mody (1998) find that higher credit quality translates into a higher probability of issuance and a lower spread. However, they also find that observed changes in fundamentals explain only a fraction of the spread compression in the period leading up to the crisis in emerging markets in 1994 (Mexican crisis). For the Philippines, spreads declined markedly over the recent period, falling below the overall EMBI in early 2007. This coincided with a general improvement in macroeconomic indicators, relative to those in neighboring countries, including on the fiscal front (Figure III.5).

Figure III.5. Spreads and Macroeconomic and Fiscal Fundamentals (2005–09) 1/



1/ Spreads is EMBI global average minus EMBI Philippines. Macroeconomic indicators for each year is equal to value in the Philippines minus average for Indonesia, Malaysia, Thailand, and Vietnam. Projections from latest WEO publication; debt-to-revenue ratio and gross debt for 2008–09 excluding Vietnam; spreads data through October Vietnam; spreads data through October.



63. **During the current global financial crisis, risk perception is probably even more important since contingent financial liabilities could be called.** Regarding the latter, although evidence suggests that the size of such liabilities could be relatively smaller in the Philippines compared to other emerging markets (Figure III.4), further provisioning may be required. Debt sustainability in the Philippines would clearly be impacted if contingent liabilities were called, including from government guarantees. Debt dynamics are also sensitive to exchange rate changes due to the high share of foreign currency-denominated public debt.

64. **In addition, it is noteworthy that recent empirical evidence suggests that the effects of discretionary fiscal stimulus decline during episodes of systemic banking crises.** The negative effect of fiscal stimulus on growth in non-oil emerging economies is statistically highly significant, reflecting binding financing constraints and exacerbating the current account deterioration (see Ivanova and Kim, 2008).

65. **In sum, if a fiscal stimulus is considered, it should be timely, targeted, transparent, and temporary.** One mechanism to deliver such stimulus, currently considered by the authorities, is through social safety nets, specifically the conditional cash transfer schemes. However, fiscal space is limited in the Philippines, requiring that any fiscal stimulus is measured as the tax effort is expected to decline in 2009 and debt remains high. Moreover, the debt-to-GDP revenue is set to rise, reversing the recent downward trend.

#### **D. The Pros and Cons of Fiscal Rules<sup>22</sup>**

66. **Currently, the Philippines does not have a fiscal rule, although there is an implicit intention to balance the budget from 2010 onwards.** There may be rationale to adopt a more explicit fiscal rule, which should aim to strike a balance between flexibility to accommodate shocks while anchoring fiscal policy to a medium-term target and avoiding deficit bias. In general, the rationale for implementing a fiscal rule includes (i) achieving medium-term macroeconomic stability (debt dynamics), without sacrificing short-run stabilization objectives and tax smoothing; (ii) assisting other policies (monetary policy); (iii) achieving or maintaining long-run fiscal sustainability; (iv) avoiding negative spillovers (preventing subnational government deficits); and (v) enhancing credibility by avoiding deficit bias.

67. **Institutional arrangements governing fiscal rules vary considerably.** Some fiscal rules are included in the constitution (Germany, most U.S. states), which has the advantage of being more stable from a political-economy perspective. Some countries prescribe the rule in a law or regulation (New Zealand's Fiscal Responsibility Act, Canada at subnational level). In addition, rules could be enshrined in a policy guideline (The Netherlands has a

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<sup>22</sup> Most of this material is taken from Koptis and Symansky (1998).

policy norm; Indonesia has a fiscal rule contained in the Guidelines for State Policy), or an international treaty (Maastricht).

68. **The method of implementing a fiscal rule also varies among countries.** Some rules operate based on assumption, that is, compliance with rule at the time the budget is prepared/approved. Others are based on knowledge, that is, compliance during budget execution. In general, implementation depends on (i) availability of automatic or discretionary contingency measures during budget execution; (ii) provisions for safeguards or escape clauses; and (iii) effectiveness of sanctions for noncompliance with the rule (financial, judicial, and reputational). Table III.1 summarizes the characteristics of various Fiscal Responsibility Acts in selected countries.

69. **Fiscal rules can be distinguished by balanced-budget or surplus/deficit rules, borrowing rules, or debt or reserve rules.** Specifically,

- **Balanced-budget or surplus/deficit rules include:**
  - Balance between overall revenue and expenditure, or a limit on surplus/deficit to GDP;
  - Balance between structural (or cyclically adjusted) revenue and expenditure, or a limit on structural surplus/deficit as a percent of GDP;
  - Balance between current revenue and expenditure (that is, borrowing permitted only to finance capital expenditure: golden rule);
  - Or mix between the above: U.K. balance of current revenue and expenditure over the cycle, debt limit, and golden rule.
- **Borrowing rules include:**
  - Prohibition on government borrowing from domestic sources;
  - Prohibition on government borrowing from the central bank; or limit on such borrowing as a proportion of past government revenue or expenditure.
- **Debt or reserve rules include:**
  - Limit on stock of gross (or net) government liabilities to GDP;
  - Target stock of reserves of extrabudgetary contingency funds (such as social security funds) as a proportion of annual benefit payments.

**Table III.1. Summary of Characteristics of Fiscal Responsibility Laws in Selected Countries**

Country	Current Law	Original Laws	Procedural Rules	Numerical Rules 1/	Scope 2/	Sanctions 3/	Escape Clauses
Argentina	Federal Regime of Fiscal Responsibility, 2004	1999, 2001	Yes	E; D	NG 4/	I	Social and economic emergencies
Australia	Charter of Budget Honesty, 1998		Yes		NG	R	No
Brazil	Fiscal Responsibility Law, 2000		Yes	E; D	PS	P; I	Several
Colombia	Organic Law on Fiscal Transparency and Responsibility	1997, 2000	Yes	PB; E; D	NFPS	P; I	No
Ecuador	Fiscal Responsibility Law, 2005	2002	Yes	NOB; D; E	PS	P; I	No
India	Fiscal Responsibility and Budget Management Act, 2003		Yes	CB (MY)	NG 4/	R	National security or calamity; or such other exceptional grounds
New Zealand	Public Finance (State Sector Management) Bill, 2005	1994, 2004 5/	Yes	OBP (MY)	GG	R	No
Pakistan	Fiscal Responsibility and Debt Limitation Act, 2005		Yes	CB; D (MY)	NG	R	National security or calamity; low levels of social spending
Panama	Law No. 2 on Economic Activity Promotion and Fiscal Responsibility, 2002		No 6/	OB; D (MY)	NFPS	R	No
Peru	Fiscal Prudence and Transparency Law, 2003	1999, 2000	Yes	OB; E; D	NFPS	I	Several
Spain	Budget Stability Law, 2001		Yes	OB	NFPS	I	Exceptional circumstances
Sri Lanka	Fiscal Management Responsibility Act, 2003		Yes	OB; D (MY)	NG	R	Exceptional circumstances
United Kingdom	Code for Fiscal Stability, 1998		Yes	CB (MY) 7/	GG	R	No

Source: International Monetary Fund, 2005, "Fiscal Responsibility Laws". Paper prepared for the Executive Board, Washington, DC.

1/ E=expenditures; D=debt; OB=overall balance; OPB=operating balance; CB=current balance; NOB=non-oil balance; PB=primary balance.

MY=rule set in a multi-year period.

2/ NG=national government; GG=general government; NFPS=nonfinancial public sector; PS=public sector.

3/ I=institutional; P=personal; R=reputational.

4/ Also adopted by some subnational governments.

5/ Fiscal Responsibility Act, 1994 (and Fiscal Responsibility Amendment Act, 1998).

6/ The FRL states the ministry of finance is accountable for implementing the provisions in the law.

7/ Numerical rule not specified in the FRL.

70. **The empirical evidence shows mixed economic effects of fiscal rules.** On the one hand, fiscal rules can lower inflation and interest rates, reduce crowding out, and lower country-risk premia and indebtedness. However, fiscal rules can also create distortions. On the expenditure side, they can lead to compression of public investment, accumulation of payment arrears, creative accounting practices, and recourse to one-off measures (privatization). On the revenue side, they can result in distortions in the tax structure and administration (advanced tax payments), and cause frequent adjustments in tax rates. More generally, rigid fiscal rules may limit budget flexibility and lead to higher output variation. Specifically, while binding balanced-budget rules can limit deficits and reduce fiscal vulnerabilities, poor design can lead to inefficient expenditure frameworks and procyclicality.

71. **The empirical and theoretical literature has identified the key characteristics of a model fiscal rule. The rule should be as follows:**

- **Well-defined:** indicator, institutional coverage, specific escape clauses:
  - Overall balance preferred over current balances as investment expenditure suffers from both conceptual and measurement weaknesses;
  - Public sector rather than general government (to include off-budget operations and the cost of quasi-fiscal activities of public enterprises; however, it may be desirable to exclude the social security system as assets cover future contingent liabilities).
- **Transparent:** accounting, forecasting, and institutional arrangements.
- **Adequate:** contain inflation (limits on borrowing from the central bank), reduce remaining external vulnerabilities (limits on budget deficit), sustainability of public-debt-to-GDP ratio (limits on government debt, or a minimum primary surplus).
- **Consistent:** criteria need to be internally consistent and with other macroeconomic or policy rules (inflation targeting).
- **Simple:** appeal to legislature and public.
- **Flexible:** accommodate external shocks by allowing room for automatic stabilizers and discretionary policies to work (i.e., use of *structural* primary surplus rule or balanced-budget rules over a medium-term horizon).
- **Enforceable:** constitutional or legal statutes, perhaps with penalties; independent fiscal councils.
- **Efficient:** the rule should prevent structural one-off measures (frequent adjustment in tax rates); a fiscal rule should be a catalyst for fiscal reforms that ensure sustainability.

72. **In the Philippines, a fiscal rule will furthermore need to be consistent with a sizeable primary surplus as the debt-to-revenue ratio remains high** (Figure III.6).

Nonfinancial public sector debt has declined sharply since peaking at over 100 percent of GDP in 2003. Moreover, given the need to raise priority spending, the credibility of the fiscal framework depends critically on the revenue effort. In this regard, options for increasing the revenue-to-GDP ratio include:

- **Streamlining tax incentives.** In this regard, a compromise bill currently being discussed would gradually phase out the income tax holiday (ITH) in five years. After it expires, they would be subject to a lower income tax rate of 15 percent or a 5 percent tax on gross income earned.
- **Reforming excises.** In this regard, unifying, raising, and indexing excise rates on tobacco and alcohol products, as proposed in House Bill, Number. 3759, could yield significant additional revenue, although this would be conditional on a strengthened administration and the demand elasticity of these products (estimated to be low). Table III.2 suggests that average excise revenue in the Philippines, as a percent of GDP, was equal to the average in selected Asia and Pacific economies during 1997 to 2001. However, between 2002 and 2006 the Philippines collected only about 50 percent of the regional average.

**Table III.2. Excise Revenue and Taxes on Specific Services in Selected Countries, 1997–2006** 1/ 2/  
(In percent of GDP)

	Average 1997–2001	Average 2002–2006
China,P.R.: Mainland 4/	0.9	1.1
India	3.2	3.2
Indonesia	0.9	1.3
Malaysia	2.0	1.9
Mongolia	3.0	3.9
Philippines 4/	2.8	1.8
Singapore	1.7	2.0
Sri Lanka 4/	3.1	3.2
Thailand 3/	3.8	4.5
Vietnam 3/	1.4	1.6
Unweighted average	2.8	3.0

Sources: IMF, *Government Finance Statistics*; IMF, *International Financial Statistics*, and IMF, *World Economic Outlook*.

1/ Including taxes on specific services.

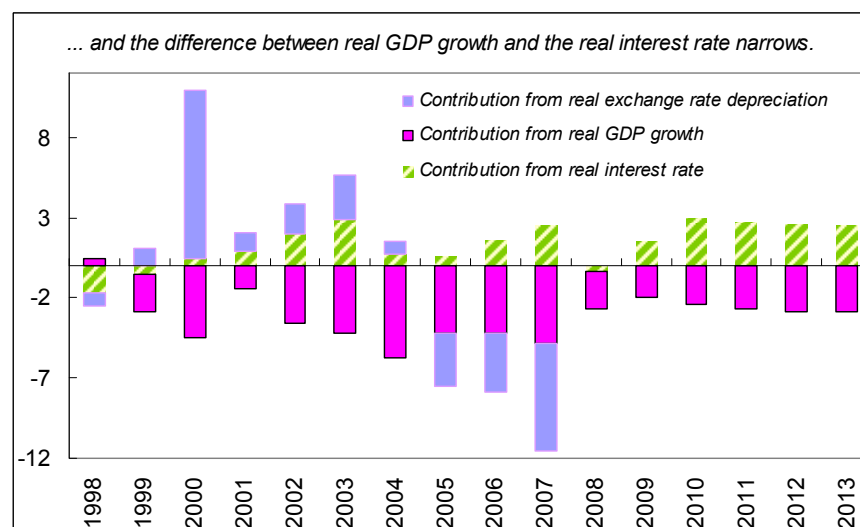
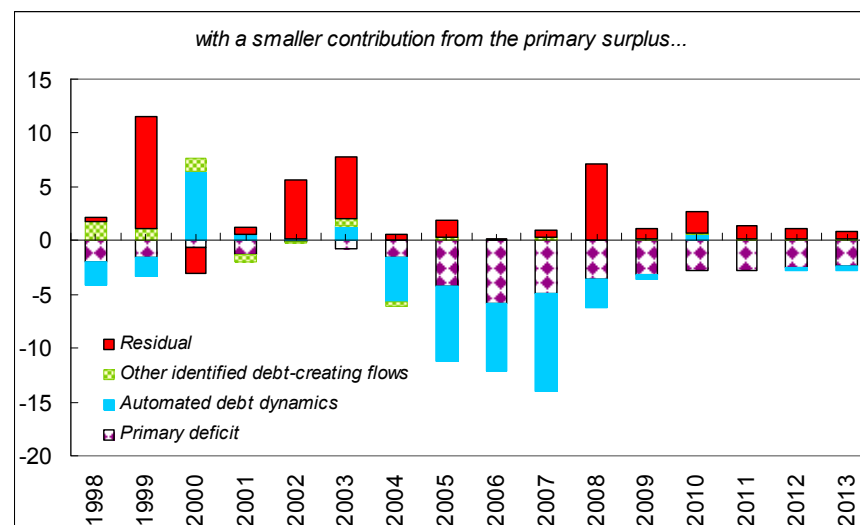
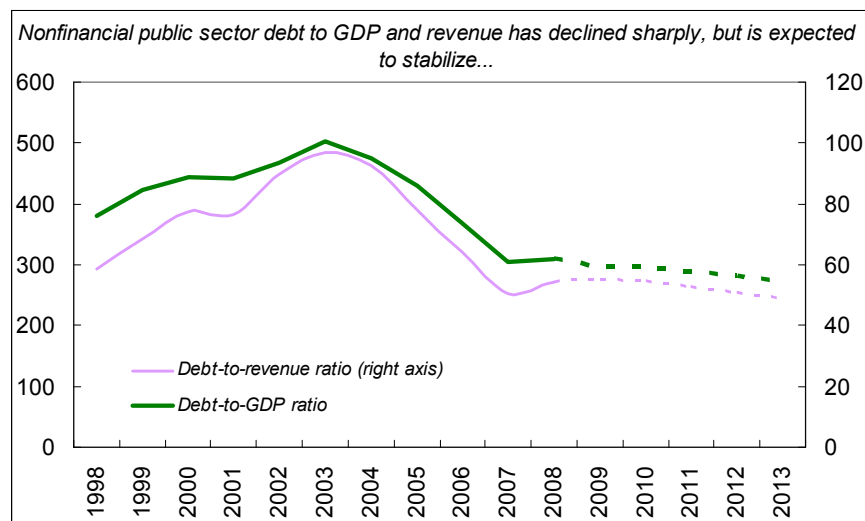
2/ Consolidated Central Government.

3/ General Government.

4/ Budgetary Central Government.

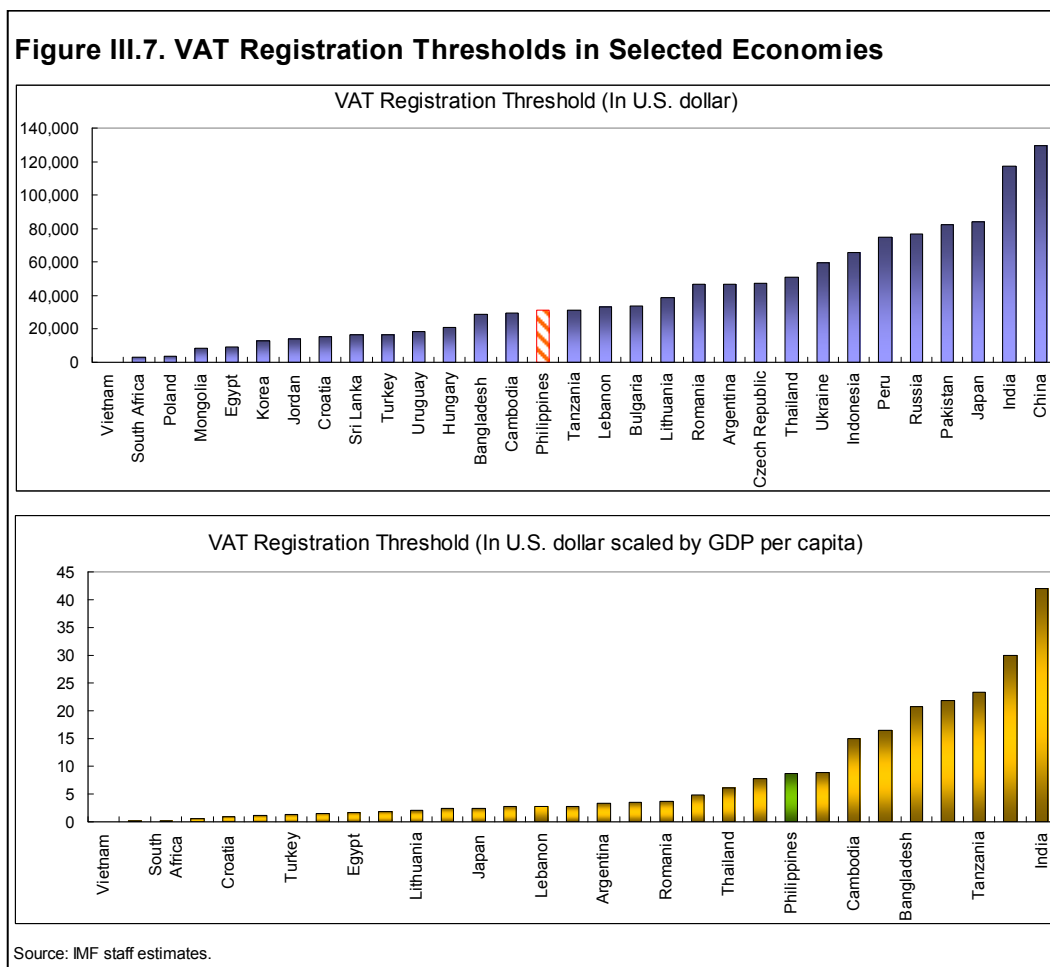
- **Accelerating tax administration reform.** Progress on the priorities in tax administration reform, agreed with the authorities in 2005, has recently been limited. The priorities at the Bureau of Internal Revenue include taxpayer registration, arrears collection, returns filing, and improving audits. Progress in customs administration reform has been poor since 2005 and it will be key to step up efforts to strengthen management controls, safeguard the integrity of the import and export clearance system, and upgrade enforcement/intelligence functions.

**Figure III.6. Decomposing Debt Dynamics in the Philippines**  
(In percent of GDP)



Source: IMF staff estimates.

- **Other tax base broadening measures.** One example of a potential measure is to reduce the VAT threshold to bring it in line with regional comparators (Figure III.7). Since this will bring additional taxpayers in the VAT net, a necessary requirement for such a measure to be successful is to strengthen the administrative efforts. Another important pending reform includes adopting a new list of allowable deductions for personal income taxation, avoiding those deductions that are most prone to abuse, as contemplated in the original SNITs legislative proposal. The largest revenue yields, at least over time, can be expected from excise reform, tax incentives rationalization, and accelerated administrative reforms, but these other measures could also significantly enhance the revenue effort.



## E. Conclusion

73. The paper analyzed the role of automatic stabilizers in the Philippines, the pros and cons of discretionary fiscal stimulus, and the potential for a fiscal rule to anchor fiscal policy. Our conclusions can be summarized as follows:

- **Like in other emerging markets, automatic stabilizers are small in the Philippines.** Furthermore, discretionary expenditure measures have broadly offset automatic stabilizers on the revenue side, indicative of remaining difficulties with cash management, the use of unprogrammed funds, as well as the recent period of fiscal consolidation. In turn, the deficit has been broadly neutral to the economic cycle.
- **Fiscal policy has been procyclical in the past, but is projected to be countercyclical in 2008 and broadly neutral in 2009.** A modest countercyclical fiscal stance next year would be appropriate in light of the significant expected slowdown of the economy.
- **Caution should be exercised with additional fiscal stimulus.** Evidence suggests that fiscal policy is less effective during times of financial stress, given concerns about investor risk aversion, higher gross financial requirements, and debt sustainability. In the Philippines, the tax effort is projected to decline, public sector debt remains high by emerging market standards, and the debt-to-revenue ratio is projected to increase. Moreover, absorptive capacity is constrained. These factors limit the room for and effectiveness of a fiscal stimulus.
- **If contemplated, any stimulus should be well-targeted, temporary, transparent, and timely.** Specifically, the Philippines has already increased personal income tax exemptions markedly and the corporate income tax rate is set to decline in early 2009. Reducing these two taxes is traditionally considered the most supportive for economic activity, considerably more so than reducing indirect taxation. Any additional fiscal room in 2009 should be used to increase public investment and additional spending on targeted cash transfers.
- **Rather than the current informal intention to balance the budget from 2010 onwards, a more explicit fiscal rule could be considered.** Such a rule should be flexible enough to accommodate well-targeted fiscal measures in the event of adverse economic shocks, while offering a credible anchor for further reducing the debt-to-GDP ratio and the debt-to-revenue ratio.
- **The credibility of the Philippine fiscal framework depends crucially on efforts to bolster revenues.** In this regard, effort should focus on reforming excises, rationalizing fiscal incentives, and accelerating revenue administration reform.