SENATE
OFFICE OF THE SECRETARY

THIRTEENTH CONGRESS OF THE )
REPUBLIC OF THE PHILIPPINES )
First Regular Session )

'04 JUN 30 P6:14

SENATE

RECEIVED BY: Oula

S.B. No. 510

**Introduced by Senator Manuel B. Villar, Jr.**

**EXPLANATORY NOTE**

The rise in the total indebtedness of the National Government has reached alarming proportions. From P600 billion in 1990, it has gone up to P2.385 trillion by 2001, reflecting an average annual growth rate of 13.37%. Consequently, interest payments have likewise ballooned from P71.1 billion in 1990 (already quite high) to P175 billion in 2001, a rise in debt servicing at an annual rate of 8.5%.

There is little doubt that the rapid escalation in the debt stock has exerted a tremendous pressure on the fiscal management in view of the upsurge in debt servicing which limits the capacity of the National Government to boost the economy thru increased productive spending. This is made more difficult when revenue collections are soft. An easy way out is for the fiscal managers to resort to borrowings. There is nothing wrong with this, except, when it reaches a point where the huge debt stock begins to gobble an increasing share of the scarce budgetary resources for debt service payments, leaving relatively less for socio-economic spending.

To minimize the propensity of fiscal authorities to borrow and instill greater discipline and prudence in public spending and revenue generation, there is a felt need to set a limit on the size of the debts stock that the National Government can sustain in relation to domestic output or GDP. Historically, the economy's debt ratio averaged 71% albeit in 2001, it was already at 79%. Setting the maximum debt-to-GDP ratio at 75% will not mean NG's debt stock will automatically decline since the economy is growing. But as an upper limit, NG will be constrained to exercise greater prudence in its borrowing program without limiting its choice of funding source, whether domestic or foreign. In view of automatic appropriations for debt service in the national budget, there is also a need for a sound debt policy that would correspond to the debt limitation scheme. Thus, this Act also provides that debt servicing should not be allowed to go beyond 5%, preferably it should average no more than 3% of GDP.

It is expected that approval of this bill will go a long way towards greater innovativeness and care in the use of budgetary resources and their requisite financing.

**MANUEL B. VILLAR, JR.**

SENATE
OFFICE OF THE SECRETARY

THIRTEENTH CONGRESS OF THE )
REPUBLIC OF THE PHILIPPINES )
First Regular Session )

'04 JUN 30 P6:14

SENATE

RECEIVED BY: Ad

S.B. No. 510

**Introduced by Senator Manuel B. Villar, Jr.**

**"AN ACT PROVIDING FOR A CEILING ON THE DEBT STOCK OF THE PHILIPPINE GOVERNMENT, INCLUDING CONTINGENT LIABITIES, AND FOR OTHER PURPOSES"**

*Be it enacted by the Senate and the House of Representatives of the Philippines in Congress assembled:*

SECTION 1. ***Short Title-*** This Act shall be known as "An Act Fixing the Debt Stock of the Republic of the Philippines."

SECTION 2. ***Definition of Terms***

a) **Debt Stock**- cumulative total debt of the public sector
b) **Gross Domestic Product (GDP)**- the value of all goods and services produced domestically.
c) **Debt Service**- the sum of loan repayments, interest payments, commitment fees and other charges on foreign and domestic borrowings.

SECTION 3. ***Debt Ceiling and Debt Service-*** In order to rationalize the debt management program of the Republic of the Philippines while providing flexibility as to the sources of borrowings that the Government of the Philippines may incur yearly to provide for expected budgetary deficit, the total debt stock that the National Government could be allowed to maintain shall not exceed seventy-five percent (75%) of the Gross Domestic Product (GDP) of the previous year; PROVIDED That debt servicing shall not exceed five percent (5%) of the GDP of the previous year.

SECTION 4. ***Contingent Liabilities*** – Contingent liabilities by way of guarantees of the Republic of the Philippines for account of its various instrumentalities, and other forms of financing government expenditures even those intended for socio-economic purposes shall also be subject to a ceiling of seventy-five percent (75%) of the Gross Domestic Product (GDP) of the previous year.

SECTION 5. ***Exception*** – The debt ceiling may not be exceeded at anytime except during the existence of emergency like calamities, war, civil unrest, and threats against national security, which prompt the government to spend more, and upon the concurrence of Congress.

SECTION 6. ***Sliding Limit*** -The debt limit shall be a sliding down limit that decreases as the economy progresses. For this purpose, the debt limit shall be allowed to gradually slide over time until the economy reaches a point where it can generate surpluses.

SECTION 7. ***Reportorial Requirement*** - The Secretary of Finance shall, within 10 days from the end of every quarter of the calendar year, submit to the Congress a complete report on the country's fiscal position and the financing activities the government has undertaken during the period. The report shall include information on all loans contracted and guaranteed by the national government. The summary report of the information shall be published in at least two newspapers of national circulation.

SECTION 8. ***Joint Legislative-Executive Oversight Committee***—There is hereby created a joint Legislative-Executive Oversight Committee to monitor and review the contingent liabilities of the Republic of the Philippines and recommend measures and policies for the effective implementation of this Act.

a) The Committee shall be composed of nine (9) members. Three (3) members from the Senate and tree (3) members from the House of Representative. The other three members shall be the Secretary of the Departments of Budget and Management, the Secretary of the Department of Finance and the Governor of the Bangko Sentral ng Pilipinas.

b) The Chairman of the Senate Committee on Finance shall be the Chairman of the Oversight Committee, while the Chairman of the House Appropriations Committee shall be the co-Chairman.

b) The Senate President shall appoint the two other members who shall come the majority and the minority. The Speaker shall likewise appoint the two members from the House of Representatives who shall come from the majority and the minority.

SECTION 9. ***Implementation Rules and Regulations*** - The Secretary of Finance shall formulate and implement the necessary rules and regulations pursuant to this Act.

SECTION 10. ***Repealing Clause*** - Any provision of law, decree, order or rules and regulations as are inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SECTION 11. ***Effectivity*** - This Act shall take effect after fifteen (15) days following its publication in the Official Gazette or in two (2) newspapers of general circulation.

Approved,