13th CONGRESS OF THE REPUBLIC)
OF THE PHILIPPINES)
First Regular Session)

SENATE

S. BILL NO. 1338

Introduced by Senator Ralph G. Recto

Explanatory Note

Government guarantees create contingent liabilities which government may not be able to pay when a call is made. Indeed, it creates distortions in the allocation of budgetary resources of the government not to mention government exposure to high fiscal risks. Fiscal instability in Mexico was traced to state guarantees for infrastructure projects while in South Korea, the government-guaranteed loans of the banking sector spurred fiscal problems for the country.

A World Bank (WB) study showed that real fiscal deficits of governments are higher than the conventional budget deficits being reported, by as high as 7.8% of the gross domestic product (GDP) for developing countries and 2.3% of GDP in developed countries. For the Philippines, the hidden deficit was estimated at around 4% of GDP. The same study established a strong correlation between the hidden deficits and currency crises in the East Asian countries.

This bill seeks to restore fiscal discipline and minimize government exposure to fiscal risks with the end view of maximizing budgetary allocations to social services such as health, education, and housing. It sets a cap on the guarantees government can extend within a fiscal year to thirty percent of one percent (0.30%) of the gross domestic product at current prices for the preceding year.

It is in this light that immediate approval of this bill is earnestly sought.

RALPH G. RECTO

OFFICE OF THE SECRETARY

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RECEIVED BY:

13th CONGRESS OF THE REPUBLIC OF THE PHILIPPINES)
First Regular Session)

SENATE

S. BILL NO. 1338

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AN ACT
TO LIMIT ANNUAL GOVERNMENT GUARANTEES TO THIRTY PERCENT OF ONE PERCENT (0.30%) OF THE GROSS DOMESTIC PRODUCT (GDP), AT CURRENT PRICES, OF THE PRECEDING YEAR

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

SECTION 1. *Title.* – This Act shall be known as the "Guarantee Cap Act of 2004".

SEC. 2. *Declaration of Policy.* – It is hereby declared to be the policy of the State to restore fiscal discipline and minimize government exposure to fiscal risks with the end view of maximizing budgetary allocations to social services such as health, education, and housing.

SEC. 3. *Cap on government guarantees.* - The national government or any of its instrumentalities may guarantee foreign or domestic loans of the private sector: *Provided,* That the total loan obligations guaranteed by the national government or any of its instrumentalities within a fiscal year shall not exceed thirty percent of one percent (0.30%) of the gross domestic product (GDP), at current prices, of the preceding year.

SEC. 4. *Implementing rules and regulations.* - The Department of Finance (DOF), the National Economic Development Authority (NEDA), the Department of Budget and Management (DBM), and other appropriate government agencies shall promulgate rules and regulations necessary for the effective implementation of this Act.

SEC. 5. *Repealing Clause.* – All laws or parts of any law inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SEC. 6. *Separability Clause.* – If any provision of this Act is held invalid, the other provisions not affected thereby shall continue in operation.

SEC. 7. *Effectivity Clause.* – This Act shall take effect fifteen (15) days after its publication in at least two (2) newspapers of general circulation.

Approved,