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

Senate
Office of the Secretary

'19 JUL 17 P6:09

RECEIVED BY

SENATE

S. No. 597

Introduced by Senator Ralph G. Recto

AN ACT
SETTING A CEILING TO THE INDEBTEDNESS OF THE REPUBLIC OF THE PHILIPPINES TO ENSURE MACRO-ECONOMIC STABILITY AND SUSTAINABLE GROWTH AND FOR OTHER PURPOSES

Explanatory Note

The country's total outstanding debt as of 2018 is P7.3 trillion, of which P4.78 trillion is domestic and P2.52 trillion is foreign.[1] The rising total outstanding debt is attributable to the increasing domestic and foreign obligations and the impact of foreign exchange fluctuations.

The government's huge budget deficit results in a seemingly relentless borrowing to cover expenditures for needed infrastructure and services. Results from an International Monetary Fund (IMF) study provide support for the hypothesis that higher debt service crowds out public investment.[2] If left uncontrolled, the public debt can balloon to a magnitude that can wreak havoc on the fiscal balance. This can have a negative impact on the economy as a whole and with grave consequence on the quality of life of the people.

This bill proposes to put a cap on the indebtedness of the government at 50% of the Gross Domestic Product (GDP). From years 2014-2018, the debt-to-GDP ratio of the Philippines stood at 45.4%, 44.7%, 42.1%, 42.1%, and 41.8% respectively.[1]

[1] *Source: http://www.treasury.gov.ph/wp-content/uploads/2019/04/debtindic-annual2004-2018final-1.pdf.* Accessed on June 26, 2019.

[2] IMF Working Paper entitled, "External Debt, Public Investment, and Growth in Low-Income Countries" by *Benedict Clements, Rina Bhattacharya, and Toan Quoc Nguyen*

Though the debt-to-GDP ratio already went down to 41.8% in 2018, the proposed cap will simply secure the prevention of potential negative impacts of high public debt on economic activity. The debt ceiling may be breached only when there are extraneous events beyond the control of the government subject to Presidential certification, and approval of Congress.

Historically, our fiscal managers have never met the original program targets set forth in the national budget documents submitted to Congress. Every year, they propose to Congress a formula on how to finance the proposed expenditure program for the incoming year. But at the end of the year, the actual revenue collections fall short of the numbers reflected in the Budget of Expenditures and Sources of Financing (BESF).

This proposed measure also puts a cap on the borrowings of the national government by mandating the Chief Executive to go back to Congress and seek authority to borrow more in the event that the national government fiscal deficit target submitted by the President is breached before the end of the fiscal year. It is essential that Congress should be closely guided by a borrowing program developed by the President to restore fiscal discipline before the country falls into another debt trap.

Hence, this bill proposes to compel our economic managers to be more accurate and prudent in their targets on the revenue and expenditure program. Likewise, this will allow Congress to assert its power of the purse. Moreover, the debt cap will require the government to exercise prudence in spending and strengthen its fiscal management. Setting limits to borrowings will provide opportunities for better prioritization of programs and projects as it has to spend within available resources.

It is hoped that this measure will be seriously considered for immediate approval.

RALPH G. RECTO

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

Section 1. *Short Title.* – This Act shall be known as the "*Government Indebtedness Cap Act*".

Sec. 2. *Debt Cap.* – The national government and any of its agencies, offices, government-owned and controlled corporations (GOCCs) shall limit its total indebtedness which carry the sovereign guaranty of the Republic of the Philippines to an amount not exceeding fifty percent (50%) of the latest Gross Domestic Product (GDP): *Provided,* That the debt ceiling set herein may be temporarily breached when there are extraneous factors beyond its control including occurrence of catastrophic emergencies of national proportion, as may be declared by the President and upon consultation with both Houses of Congress. The presidential certification must specify the urgency and necessity of such breach, the period of time within which the government should offset the breach, as well as measures to cushion the effects of said breach to the national economy: *Provided, further,* That in the event that the national government fiscal deficit target as indicated in the Budget of Expenditures and Sources of Financing (BESF) submitted by the President of the Republic of the Philippines to Congress, pursuant to Section 22, Article VII of the 1987 Constitution, is breached, the Government of the Philippines shall in no case borrow from foreign and/or domestic sources without the prior approval of the House of Representatives and concurrence by the Senate: *Provided, finally,* That the debt cap set forth in this Act shall not preclude the adoption of another debt policy option or a combination of debt options that will reduce the country's outstanding debt stock.

Sec. 3. *Reporting Requirement.* – The Secretary of Finance shall, within ten (10) days from the end of every quarter of the calendar year, submit to Congress a written report on the country's fiscal position and the modes of financing the government has undertaken during the period.

Sec. 4. *Separability Clause.* – If any part or provision of this Act shall be held unconstitutional or invalid, other provisions, which are not affected thereby, shall continue to be in full force and effect.

Sec. 5. *Repealing Clause.* – All laws, presidential decrees, executive orders, rules and regulations inconsistent with the provisions of this Act are hereby repealed, amended or modified accordingly.

Sec. 6. *Effectivity.* – This Act shall take effect fifteen (15) days after its publication in the *Official Gazette* or in at least two (2) national newspapers in general circulation.

Approved,