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

SENATE

S. No. **130**

Introduced by Senator FRANKLIN M. DRILON

EXPLANATORY NOTE

Debt may be defined as the current use of future revenue. Viewed from this perspective, every government must be more prudent and discerning in committing future revenues to pay for its current expenditures.

A proxy for economic output, GDP is the amount of goods and services produced in a country. The debt-to-GDP ratio is a key measure of how manageable is a country's obligation relative to its annual economic output, with a declining ratio viewed favorable as this means the country would allot a smaller amount to pay off its debt.[1]

Based on the projections of Asian Development Bank, the Philippines' debt-to-gross domestic product (GDP) ratio may rise by 15 percent by 2015 in a scenario of higher primary deficit to GDP. In 2009, the Philippines' debt-to-GDP ratio stood at 56.5 percent, the highest among Asian countries.

Reducing the proportion of the country's outstanding debt-to-GDP will improve its credit worthiness and ability to attract investors.

Moreover, the escalating debt service payments in the General Appropriations Act causes alarm for it has effectively crowded out expenditures for social services and physical infrastructures.

Because of mandatory interest payments, there is little room for expenditures in the national budget for urgent social and physical infrastructures needed to stimulate the economy.

There is therefore urgent need for the development of a formal debt policy to establish a threshold level for public debt. The setting and imposition of a debt cap ensures that debt service payments continues to be affordable within the context of budget priorities.

In view of the foregoing, approval of this bill is strongly recommended.

FRANKLIN M. DRILON
Senator

[1] 'ADB warns Philippines of "debt stress" ', News Updates, www.aseanaffairs.com , 21 April 2009

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AN ACT
PROVIDING FOR A CAP ON PUBLIC DEBT TO ENSURE LONG-TERM FINANCIAL SUSTAINABILITY THROUGH FISCAL DISCIPLINE

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

SECTION 1. *Title.* – This Act shall be known as the "Debt Cap Act".

SEC. 2. *Declaration of Policy* – It is hereby declared a policy of the State to adopt fiscal discipline in all areas of government operations. As such, government shall endeavor at all times to live within its means by minimizing deficit spending to levels that will ensure fiscal sustainability. In so doing, government debt shall be maintained within levels that will balance the interests of present and future generations and will preserve the ability of government to access future resources at reasonable terms.

SEC. 3. *Definition of Terms* – When used in this Act:

a) "Debt" or "Indebtedness" refers to funds from repayable sources including loans secured by the government from financial institutions and other sources, whether internal or external to finance development projects and/or budget support.

b) "Gross Domestic Product" refers to the standard economic measurement of the size of the economy. It is the total value of the production of goods and services within the country. Nominal GDP refers to the value of the Gross Domestic Product in current pesos.

c) "Government–Owned and/or Controlled Corporation" refers to any agency organized as a stock or non-stock corporation, vested with functions relating to public needs whether government or proprietary in nature, and owned by the government directly or through its instruments either wholly, or where applicable as in the case of stock corporations, to the extent of at least fifty-one (51) percent of its capital stock.

d) "National Government" refers to the entire machinery of the central government, as distinguished from the different forms of local governments.

SEC. 4. *Debt Cap* – Within five (5) years from the enactment of the Act, the consolidated outstanding debt of the National Government and of government-owned and/or controlled corporations shall not exceed, at any one time, an amount equivalent to One Hundred (100) percent of the country's nominal Gross Domestic Product. Within another five years and thereafter, said outstanding debt shall not exceed Eighty (80) percent of the country's Gross Domestic Product : Provided, That in no case within this second five year period will the level of outstanding debt exceed One Hundred (100) percent of Gross Domestic Product.

SEC. 5. *Exceptions to Debt Cap* – The following indebtedness shall be deemed excluded from the computation of total amount of indebtedness subject to the debt cap:

a) Loans and other forms of indebtedness incurred by the Bangko Sentral ng Pilipinas, the Central Bank Board of Liquidators, government financial institutions and government – owned and/or controlled corporation performing relating financial intermediation operations;

b) Indebtedness incurred to address unforeseen calamities as declared by the President: *Provided,* that the utilization of the proceeds therefrom shall be subject to appropriations approved by Congress.

SEC. 6. *Debt Cap Implementation Plan* – The Department of Finance shall prepare a Debt Cap Implementation Plan to carry out the provisions of this law. Said Plan shall be submitted to both Houses of Congress through the House Committee on Appropriations and Committee on Banks and Financial Intermediaries and the Senate Finance Committee and Committee on Banks, Financial Institutions and Currencies within three (3) months from the issuance and official publication of the implementing rules and regulations of this Act.

SEC. 7. *Institutions Exempted from the Debt Cap* – Institutions mentioned under Section 5 hereof shall report their annual level of outstanding debt from all sources, foreign or domestic, regardless of maturity, to both Houses of Congress, through the House Committee on Appropriations and Committee on Banks and Financial Intermediaries and the Senate Finance Committee and Committee on Banks, Financial Institutions and Currencies.

SEC. 8. *Implementing Rules and Regulations* – The Department of Finance, in coordination with the Department of Budget and Management and the National Economic and Development Authority, shall promulgate the implementing rules and regulations for the implementation of this Act within sixty (60) days from its publication in two newspapers of general circulation.

SEC. 9. *Separability Clause* – If for any reason, any section or provision of this Act is declared unconstitutional or invalid, other sections or provisions which are not affected thereby shall continue to be in full force and effect.

SEC. 10. *Repealing Clause* – All laws, orders, decrees, rules and regulations inconsistent with the provisions of this Act are hereby repealed or modified accordingly.

SEC. 11. *Effectivity Clause* – This Act shall take effect after fifteen (15) days following its publication in at least two (2) newspapers of general circulation.

Approved,