

Republic of the Philippines
House of Representatives
Quezon City

Fifteenth Congress
Second Regular Session

HOUSE BILL No. 5245



Introduced by Honorable Joseph Emilio Aguinaldo Abaya

EXPLANATORY NOTE

The call for fiscal discipline resonates in many countries these days. Recent budget debates in the United States and other European countries attest to the pressing significance of this topic, whether one's economy is developed or emerging.

The proposed Fiscal Responsibility Bill seeks to instill fiscal discipline in the public sector. It prescribes a set of principles which aggressively advocates prudent debt management, fiscal consolidation, results-oriented budgeting, rationalization of subsidies, asset preservation, spending controls, and responsible risk management.

It is anchored on the often forgotten principle that fiscal responsibility is shared among many institutions. It thus mandates the executive and legislative branches to agree on, and jointly work towards achieving, medium-term fiscal targets through the passage of a fiscal accord and an annual budget strategy. It also holds heads of different government agencies accountable for managing their budget, especially their Personal Services requirement.

But the heart and soul of this bill is the offsetting mechanism prescribed under Section 7. Strictly enforcing Section 25(4), Article VI of the 1987 Constitution – which mandates that all special appropriation bills must be supported by funds actually available in the treasury or raised by a corresponding revenue proposal therein – Section 7 commands that no expenditure measure shall be passed into law without the counterpart revenue-generating or expenditure reducing measure. This deficit-neutral measure is designed to prevent the proliferation of unfunded laws which unnecessarily distorts the national government's priorities, and unfairly raises the expectations of their beneficiaries.

It is about time that the Philippines pass its own Fiscal Responsibility Bill. We need to fiscally sustain the benefits of the institutional reforms introduced by the Aquino Administration.


JOSEPH EMILIO AGUINALDO ABAYA
Chairman, Committee on Appropriations

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AN ACT
INSTILLING FISCAL DISCIPLINE IN THE PUBLIC SECTOR BY
ESTABLISHING PRINCIPLES OF RESPONSIBLE FINANCIAL
MANAGEMENT, MANDATING THE PASSAGE OF THE MEDIUM TERM
FISCAL ACCORD AND ANNUAL BUDGET STRATEGY, AND PRESCRIBING
AN OFFSETTING MECHANISM FOR EXPENDITURE BILLS

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

1 **SECTION 1. Title.** – This Act shall be known as the “*Fiscal Responsibility*
2 *Act.*”

3 **SEC. 2. Declaration of Policy** - It is hereby declared a policy of the State
4 to instill fiscal discipline in the public sector by prescribing principles of
5 responsible financial management, and establishing control mechanisms on
6 spending. The State shall ensure overall macroeconomic stability and long-term
7 sustainable growth through strategic forward planning and continuous
8 coordination between the Executive and Legislative branches of government. The
9 State shall likewise strengthen the budget as a performance management tool
10 and afford full transparency and accountability in all government revenue,
11 expenditure and borrowing operations.
12

13 **SEC. 3. Principles of Responsible Financial Management** - The State shall
14 pursue its policy objectives in accordance with the following principles of
15 responsible fiscal management:

- 16 1. Achieve fiscal sustainability through prudent debt management and the
17 adoption of a fiscal consolidation strategy.

2. Minimize the vulnerability of the government's fiscal position to foreign exchange fluctuations by maintaining an appropriate mix of domestic and external financing.
3. Promote responsible budgeting by strengthening the results-orientation of all government expenditures and affording full transparency and accountability in all government expenditure operations.
4. Maintain budget credibility by ensuring that automatically appropriated items in the budget, such as interest payments, are kept intact to prevent unwarranted distortion of the government's fiscal position.
5. Rationalize the grant of subsidy and/or equity investment to the government corporate sector by limiting the subsidy to those with socially relevant mandates and equity investment to corporations with high economic returns.
6. Preserve government assets by reducing reliance on the use of proceeds from the sale or transfer of properties to finance current or operating expenditures of the public sector.
7. Protect any fiscal gain that may be achieved by adopting deficit-neutral measures that will control spending, prevent the erosion of the revenue or tax base, and rationalize the grant of fiscal incentive.
8. Manage prudently and minimize all fiscal risks facing the government.

SEC. 4. *Medium Term Fiscal Accord* – The Medium Term Fiscal Accord (MTFA) is an agreement between the Executive and Legislative branches of government on the fiscal targets of the National Government sought to be accomplished over a period of three (3) years. The agreed upon terms and content of the MTFA, which shall be consistent with the principles enumerated in Section 3, shall be embodied in a Joint Resolution signed by the Speaker of the House of Representatives, the Senate President, and the President of the Philippines, and shall have the force and effect of a law.

If no MTFA shall have been agreed upon within the prescribed period, then the MTFA of the preceding congressional term shall be deemed reenacted and shall remain in force and effect until the new MTFA is passed.

1 **SEC. 5. *Annual Budget Strategy*** - The macro-economic policies and fiscal
2 targets sought to be achieved by the National Government in one fiscal year shall
3 be contained in the Annual Budget Strategy (ABS). The ABS shall be
4 incorporated in the General Appropriations Bill submitted for approval by the
5 President.

6
7 In case of a re-enacted budget as provided under Section 25 (7), Article VI of
8 the 1987 Constitution, the ABS prepared by the Executive branch shall be
9 deemed approved until the passage of a new General Appropriations Act (GAA)
10 containing a different version of the ABS.

11
12 **SEC. 6. *Responsible Budgeting*** – The heads of all departments and
13 agencies in the Executive, Legislative, and Judicial branches, including
14 government-owned or controlled corporations, government financial institutions
15 and Constitutional Offices shall be responsible in ensuring that their Personal
16 Services (PS) requirement, regardless of funding source, is computed based on
17 the personnel information provided in the Government Manpower Information
18 System maintained by the Department of Budget and Management (DBM) and in
19 accordance with the basic salaries, allowances and benefits, and incentives
20 authorized under Republic Act No. 6758, as amended, or the respective laws of
21 government agencies exempt therefrom.

22
23 Accordingly, the DBM shall only release the PS appropriations of all
24 departments and agencies in the Executive, Legislative, and Judicial branches,
25 including Constitutional Offices that are consistent with the foregoing computation.

26
27 Any and all payments made in excess of the PS computation above, whether
28 sourced from the GAA, special accounts, revolving funds, or corporate funds,
29 shall be considered an illegal disbursement of public funds and shall make the
30 responsible official/s legally accountable therefor.

31
32 **SEC. 7. *Expenditure Bills*** – Pursuant to Section 25 (4), Article VI of the 1987
33 Constitution, all proposed bills the implementation of which will result in, or carry

1 with it, an increase in National Government expenditures, especially those
2 mandating the creation of recurrent expenditures, must be offset by measures
3 providing for a permanent increase in revenue or permanent reduction in other
4 expenditures.
5

6 For this purpose, all expenditure bills must be accompanied by the following:

- 7 1. An estimate by the DBM of its budgetary and financial impact for the
8 next three (3) years; and
 - 9 2. A sworn statement of responsibility to be executed by its principal
10 sponsor/s certifying that:
 - 11 a.) the increase in expenditure shall be supported by a revenue
12 generation measure identified either in the ABS or an independent
13 legislative proposal; and
 - 14 b.) an undertaking that the effectivity of the expenditure bill is
15 conditioned on the implementation of the revenue generation
16 measure identified in the ABS or the passage and execution of the
17 independent legislative proposal
- 18

19 **SEC. 8. Effectivity of Expenditure Bills** – The effectivity of any
20 expenditure bill shall be conditioned on the following:

- 21 a.) issuance by the DBM of a certification that all the requirements
22 prescribed in Section 7 have been complied with; and
- 23 b.) implementation of the offsetting measure identified in the ABS or the
24 passage and execution of the independent legislative proposal
25 mentioned in the sworn statement of responsibility.
26

27 **SEC. 9. Unfunded Laws** – All laws with budgetary implications that were
28 enacted without identified supporting revenue generation or expenditure reduction
29 measure shall be considered harmful to public finances and remain unfunded.
30

31 The effectivity of existing legal provisions which mandates remain
32 unfunded, whether partially or in full, shall be suspended until the requirements of
33 Sections 7 and 8 have been complied with.

1 **SEC. 10. *Implementing Rules and Regulations*** - The DBM and the
2 Department of Finance shall promulgate the necessary rules and regulations for
3 the proper implementation of the provisions of this Act within sixty (60) days from
4 the date of its effectivity.

5
6 **SEC. 11. *Separability of Provisions*** - If for any reason, any portion or
7 provision of this Act or the application thereof shall be declared invalid or
8 unconstitutional, the validity of other parts or provisions not affected thereby shall
9 continue to be in full force and effect.

10
11 **SEC. 12. *Repealing Provision*** - Any law, presidential decree or issuance,
12 executive order, rule or regulation, and/or parts thereof, contrary to or inconsistent
13 with the provisions of this Act is hereby repealed, modified, or amended
14 accordingly.

15
16 **SEC. 13. *Effectivity Clause*** - This Act shall take effect after fifteen (15)
17 days following its publication in the Official Gazette or in two (2) newspapers of
18 general circulation.

19 Approved,