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Ensuring Sound
Macroeconomic
Policy

Ensuring Sound Macroeconomic Policy

A stable, sound, and supportive macroeconomic environment is essential for expanding economic opportunities and fostering sustained growth. A fiscal sector that is responsible, strategic, and supportive of inclusive growth can boost the economy and provide a stable environment that is conducive to investments. Monetary policy that ensures price stability with a stable and inclusive financial sector can support growth and improve access to economic opportunities. A strategic external trade policy regime enables regional and local enterprises to successfully compete in global markets and provide employment opportunities for the people of the region.

SOUND MACROECONOMIC POLICY

Assessment

Fiscal Policy

Fiscal policy is the use of government spending and taxation to influence the economy. Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty. In the longer term, the aim may be to nurture sustainable growth or reduce poverty with actions on the supply side to improve infrastructure or education. At the sub regional level, local government units are the main drivers of development and the implementers of public financial management reforms to strengthen linkage between the plan/investment program and budget and to ensure viability of local economic enterprises and public utilities.

In a nationwide study commissioned by the Department of Finance-Bureau of Local Government Finance (DOF-BLGF), 62 of 80 provinces use outdated basis for collecting real property tax (RPT). About 5 in every 8 of them have property tax contributing only

less than 5 percent to their annual regular income. Meanwhile, 4 in every 5 cities use outdated bases for collecting RPT. If fully enforced and properly administered, RPT is a progressive and stable source of revenues to be shared to municipalities, barangays, and local school boards.

Under the 1991 Local Government Code (LGC), RPT should be based on a Schedule of Market Values (SMVs) that is fair, current, and updated. Provinces and cities are required to update the SMV and to conduct general revision of property assessment and classification once every three years. However, several provinces failed to comply with this provision. When LGUs fail to update their SMVs, they result to limited revenues to the government and cause unjust burden to taxpayers.

Seven in every ten provinces have not fully developed their local revenue base. To be effective in nation-building, LGUs are given powers by the LGC to generate local incomes to fund basic services. But after more than

20 years of fiscal decentralization, locally sourced income still have very little to the annual regular income of provinces. The rest of the regular income are mandatory shares from the IRA and other national government revenues. Among the provinces in Region XII, only the province of Cotabato has an updated real property assessment for the period 2013-2015.

Among local governments, cities have the most taxing powers to general local income to fund the basic social services. But most cities with more than 10 years of cityhood still rely less on their locally sourced income. Cities have better leverage than other local governments when it comes to funding education services. The allowable

RPT rate is higher (up to 2%) and the basis for such tax is broader due to high-value properties brought about by commercial and economic activities in cities.

In addition to the RPT, cities also collect the additional 1 percent levy, known as the Special Education Fund (SEF), to be used for the operations and sports development as required by the LGC. The SEF is automatically released to the City School Board. The additional 1 percent levy is based on the Schedule of Market Values of the LGU, which is required by law to be updated every three years. Among the cities in Region XII, only Tacurong City has an updated real property assessment for the period 2013-2015.

Local Income Generation

Real property tax collection (RPTC) in the region decreased by 8.9 percent in 2012 but started to pick up in 2013. It started to increase in 2013 and posted an average annual growth of 7.1 percent between 2013 up to 2015. The average collection efficiency rate is 69.9 percent. South Cotabato consistently topped the annual collection followed by General Santos City and North Cotabato. Koronadal City consistently registered the highest collection efficiency rate in 2011-2015 with annual average of about 135.17 percent.

In 2015, local income sources mainly came from business taxes which is 56.9 percent of

the total income collection, followed by fees and charges at 29.9 percent, and economic enterprise posting 13.1 percent. General Santos City recorded the highest collection for business taxes as well as from economic enterprises. Cotabato Province recorded the highest collections for fees and charges.

Information drive, tax mapping, close monitoring on tax compliance, “Oplan Kandado”, support to RIP, campaign against tax evaders through RATE (Run Against Tax Evaders) were undertaken to increase internal revenue collection. Actual revenue collection showed an increasing trend from P3,635 million in 2011 to P8,049 million in 2015, posting an average annual growth of 30.4 percent during the period.

Table 44: Local Revenue Collection, 2011-2015, Region XII

INDICATOR	2011	2012	2013	2014	2015
Real Property Tax Collection (PhP Million)*	663.48	604.04	658.28	720.42	754.33
Local Revenue Tax Collection* - Business Taxes, Fees and Charges, Economic Enterprise (PhP Million)	994.08	1,187.75	1,315.34	2,118.87	2,092.17
Internal Revenue Collection (PhP Million)**	3,635	5,244	5,927	6,750	8,049

Source of data: * DOF-BLGF XII
** BIR RR No. 18

Monetary Policy

Monetary policy as exercised by the central bank (Bangko Sentral ng Pilipinas) controls the supply of money, often targeting a lower inflation rate or interest rate to ensure price stability and general trust in the currency. At the regional level, monetary policy impacts on the resiliency of banks and other financial intermediaries that provide incentives to influence the decision of individuals and enterprises to invest and save more. Increased levels of savings would allow resources that can be made

available for public investments as well as for financing development activities.

As of 2015, there are 197 banks established in Region XII. Of the total banks established, about 53.0 percent are universal/commercial banks, 30.0 percent are rural banks, 13.0 percent are thrift banks, and around 4.0 percent are cooperative banks. In terms of location, General Santos City hosts the most number with 58 banks, followed by Cotabato Province with 45 banks, while Sarangani having the least with 9 banks.

Table 45: : Banking Institutions in Region XII, As of 2015

AREA	UNIVERSAL/ COMMERCIAL BANKS	THRIFT BANK	RURAL BANK	COOPERATIVE BANK	TOTAL
Cotabato Province	18	2	19	6	45
Sarangani	1	1	7	-	9
South Cotabato	20	8	12	-	40
Sultan Kudarat	11	3	13	-	27
Cotabato City	17	-	1	-	18
General Santos City	37	12	8	1	58
Total	104	26	60	7	197

Source of data: **Banko Sentral ng Pilipinas**

In 2015, about 16 out of 48 municipalities in the region are still without banks as shown in the table below.

Table 46: Number of Municipalities without Banks, by Province, Region XII, 2015

PROVINCE	TOTAL NUMBER OF MUNICIPALITIES	NUMBER OF MUNICIPALITIES WITHOUT BANK	% SHARE
Cotabato Province	18	8	44.4
Sarangani	7	1	14.3
South Cotabato	11	3	27.3
Sultan Kudarat	12	5	41.7
Total	48	17	35.4

Source of data: **Banko Sentral ng Pilipinas**

Deposit liabilities are money received by a bank from people or companies that the bank will have to pay back in the future. Loan portfolios are assets because of the recurring

revenue that the loan payments create. In 2015, total deposit liabilities generated in the region grew by 18.4 percent while loan portfolios increased by 10.4 percent.

Table 47: Banking and Financial System, Region XII, 2015

INDICATOR	ACTUAL		2015 TARGET	GROWTH (%)	GAP
	2015	2014			
Number of banks and financial institutions established	221	205	199	7.8	22
Loan portfolios (In Billion Pesos)	29.32	26.57	22.96	10.3	6.36
Deposit liabilities (In Billion Pesos)	88.62	74.82	73.9	18.4	14.72

Source of data: **Banko Sentral ng Pilipinas**

For the period 2011 to 2015, regional inflation rates had been maintained at less than 5.0 percent annually. For

the plan period 2017 to 2022, inflation is targeted to be less than 5 percent.

Financial and Trade Policy

The government committed to provide better market access for micro, small and medium enterprises (MSMEs) by mainstreaming their products in commercial establishments, particularly those from the agriculture sector. It also urged the business sector to continue helping the government beat poverty. To

usher this initiative, mall chains are tapped to provide commercial spaces where MSME products from local government units can be purchased by mall-goers. With the “Go Lokal” stores stationed at mall-chains, agricultural products will become a regular fixture in malls. The initiative will serve as a model that can provide sustainable market for the agriculture sector, especially poor farmers. Financing support shall be provided for micro and small entrepreneurs.

Challenges

Fiscal Policy

- Poor implementation of local revenue enhancement measures.
- Less reliable revenue forecasts due to outdated Local Revenue Codes and Schedule of Market Values.
- Weak linkage between the development plans and the budget.
- Heavily subsidized local economic enterprises.
- High reliance on Internal Revenue Allotment.
- Low compliance with procurement laws.

- Inadequate information dissemination on the value of saving since most of the population in the region have not developed the value of saving.
- Absence of financial and other credit facilities in some areas in the provinces in the region.
- Lack of awareness on how to mobilize savings to finance development programs.

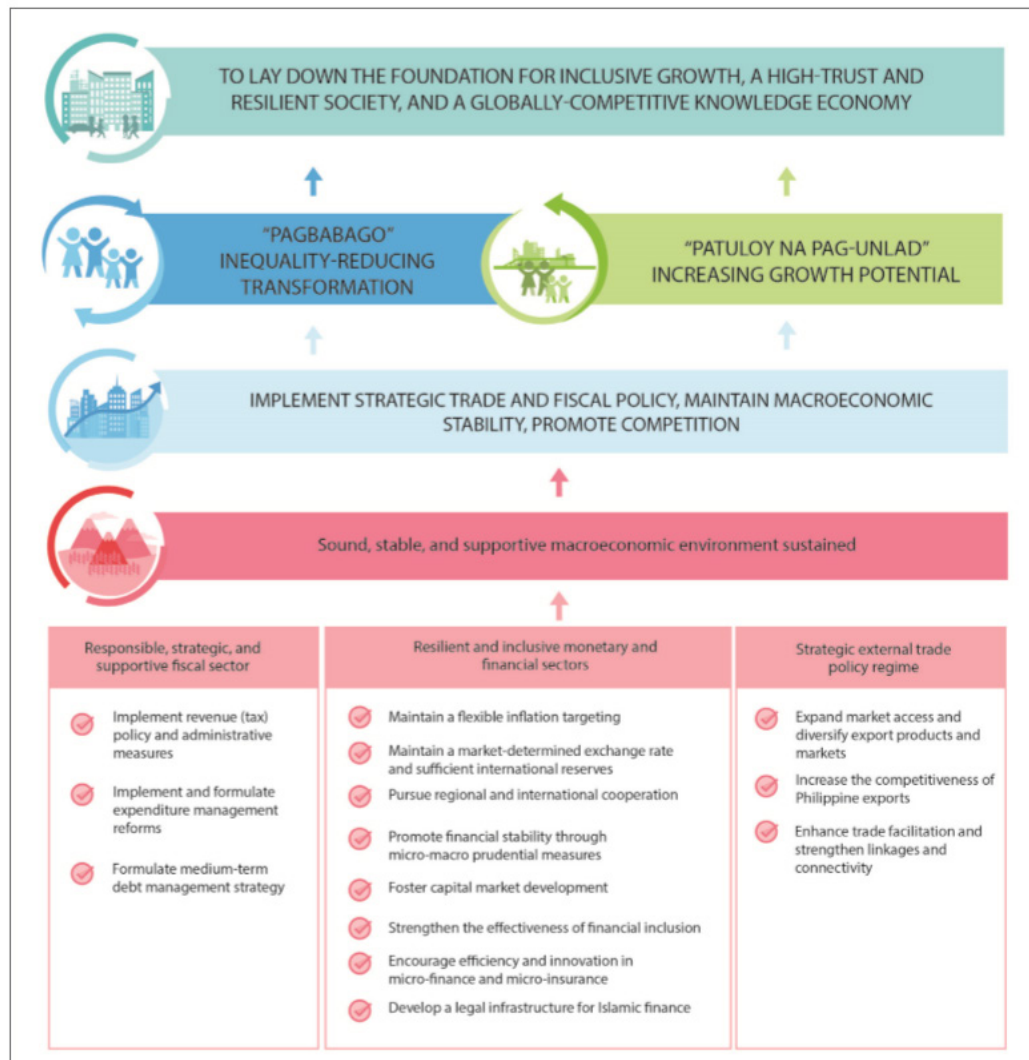
Financial and Trade Policy

- High cost of doing business due to poor infrastructure facilities, unstable power supply, and inefficient business permit and licensing system.

Monetary Policy

- Slow in implementing institutional and economic reforms and failure to put up measures to make the region ready in time for the ASEAN integration in 2015 despite the participation of Region XII in the BIMP-EAGA regional economic cooperation.
- Low competitiveness among industries as well as local government units in creating a more business-friendly environment.
- Untapped Islamic banking and finance. Considering the diversity of people in the region, Islamic banking and finance could be tapped in advancing financial inclusion. It will play an important role in poverty-stricken areas mainly populated by indigenous peoples.

Figure 20: Strategic Framework to Sustain a Sound, Stable and Supportive Macroeconomic Environment, 2017-2022



Priority Strategy

Fiscal Policy

The following are the priority strategies of the DOF-BLGF to enhance the revenue-generating capacity of LGUs which include the review of the fiscal provisions of the 1991 Local Government Code to consider amendments on tax assignments and revenue mandates and the review of current regulations on utilization of national transfers, local fiscal incentives, and subnational borrowing. Among the interventions being undertaken are the following:

- Professionalization Law including government appraisers and assessors (under the Real Estate Service Act or Republic Act No. 9646).
- Issuance of directive by the Secretary of Finance to all local treasurers to step up revenue collections and to the assessors to update property values and adopt idle land tax.
- Electronic Statement of Receipts and Expenditures, with sanctions for non-compliant treasurers.
- LGU Fiscal Sustainability Scorecard, Publication of Fiscal Performance of LGUs and Tax Watch Advertisements.
- Performance Standards for Local Treasurers (forthcoming).
- Updating of Treasury and Assessment Operations Manuals (ongoing).
- Scaling up of land governance and valuation reforms in more LGUs.
- Capacity building programs on updating of property values.

Legislative Agenda

Fiscal Policy

There is a need to prioritize the following key legislation pending in Congress:

- Valuation Reform Bill: recentralize the

Monetary Policy

- Conduct campaign to enhance awareness of the basic and vulnerable sector of society of the importance of banking and saving.
- Establishment of banking institutions in municipalities without banks or establish additional banks in adjacent municipalities to provide wider access to banking services.
- Provision of livelihood through less stringent micro-financing loan facility to farmers, fisher folks, women and other basic sector groups.
- Strengthen cooperatives and closely monitor their operations to prevent bankruptcy.

Financial and Trade Policy

- Facilitation of continuous market access for MSME products, especially in the agriculture sector.
- Participation in competitiveness survey and sustaining MSME development to facilitate adaptation of business standards to enhance industry competitiveness.
- Provision of technical and financial assistance to help the startup of promising MSMEs.
- Tapping Islamic banking and finance as a tool for advancing financial inclusion

- approval of property valuations
- Income Classification Bill for the Secretary of Finance to set income brackets and to regularly reclassify local governments every 3 years
- Bill increasing the income requirement

for creation of cities from Php100M to Php250M (which may be increased every 3 years)

- Continuous monitoring/technical assistance through oversight agencies: improve accountability and transparency, more capacity building for resource mobilization, harmonize PFM tools at the local levels, among others
- Focus on rural areas/local governments with high poverty incidence
- Address the regulatory and supervisory framework of Islamic banking and finance so that it can be utilized as a tool for promoting financial inclusion of poverty-stricken areas populated by indigenous peoples and ethnic groups.
- Setting up microfinance products tailored to the needs of target basic sector groups

Financial and Trade Policy

Table 48: Results Matrix to Sustain a Sound, Stable, and Supportive Macroeconomic Environment, 2017-2022

SOCIETAL GOAL: TO LAY DOWN THE FOUNDATION FOR INCLUSIVE GROWTH, A HIGH TRUST SOCIETY, AND A GLOBALLY COMPETITIVE KNOWLEDGE ECONOMY		
Intermediate Outcome: Implement Strategic Trade and Fiscal Policy, Maintain Macroeconomic Policy and Promote Competition		
Sector Outcome: Sound, stable, supportive macroeconomic environment sustained		
Indicators	Baseline	
	Year	Value / Number
No. of banked areas in Region XII		
Percentage of LGUs covered by banks	2016	Increasing annual coverage

Source of data: **Banko Sentral ng Pilipinas**

