

**The President's Budget Message
FY 2006**

**Moving the 10-Point Agenda
for Socio-Economic Renewal
and Fiscal Health**

The Honorable Speaker of the House of Representatives
The Honorable President of the Senate
Members of the 13th Congress of the Philippines
Ladies and Gentlemen:

Today, I perform my Constitutional duty as President of the Republic of the Philippines of submitting to Congress the P1.053 trillion National Budget for fiscal year 2006.

This Budget is this Administration's commitment to implement—with Congress' help—the country's socio-economic growth and reform agenda. This 10-Point Agenda we have clearly laid out in our Medium Term Development Plan for 2004-2010.

I have full faith in the Members of the 13th Congress of the Philippines that they will have the same absolute commitment to pursue our common quest for stability and prosperity for the country. For the first time in our history, the National Budget will reach the trillion mark and will increase the previous year's budget by 14.7 percent.

I hope that Congress will see the proposed Budget as the Executive Branch envisions it to be—a potent weapon for the permanent upliftment of the large mass of our people from poverty, to scrutinize it—minutely, if it must—but with promptness to allow us to move swiftly forward in implementing our common goals.

During the past year, the country has gained significant headway towards fiscal and economic reforms. The economy is growing, the budget deficit stays on track, the rest of the public sector outside the national government is in overall surplus position, and our external accounts remain strong.

This agenda has never been easy. The reforms have been hard won, with friends and foes urging or slowing us along the way.

We cannot allow our economic gains to be dissipated by destructive politics or by short-term setbacks. Nor should we allow our efforts at improving governance to lose its momentum. To do so would mean giving up on our people and giving up our chance for a better life in this fiercely competitive global environment.

I am extremely thankful that Congress, in its wisdom, has supported the Administration in its long and hard fight for a strengthened tax base, for improved revenue collection, for more transparency and accountability in government operations.

It is my fervent hope that Congress will be there again with us when we push on with the next phase of our growth agenda.

The coming years will be critical ones. For years, we have languished in debt and in deteriorating public services. We will need a Budget that is both decisive and responsive to these critical times. I propose such a Budget.

A proposed National Budget, without Congress imprimatur however, is just that—a proposal. It is up to the men and women of Congress to give it the needed legislative life and impetus. The country and I await this legislative energy that will propel the Country forward.

THE CHALLENGE: Counting the Gains

When I took over the helm of government in 2001, the country's economy was impeded by a fast deteriorating fiscal position brought about by the free fall of the tax collection effort and an unsustainable expenditure policy. The result was a ballooning public debt matched by a business confidence which had sunk to the lowest levels.

I promised myself, when I took oath as the 14th President of this Republic, that I will do my best to restore the fiscal health of the country and bring out the full potential of the economy. I, with the Cabinet, set out in no unmistakable terms, the strategy and the targets we would pursue.

We wanted Congress and our people to be one with us in our growth and poverty reduction agenda. With the support of Congress, the Judiciary, and my colleagues in government, we have instituted comprehensive reforms to weed out graft and corruption in the government. We have taken the first meaningful steps to put our fiscal house in order.

We cannot afford to stop these reform efforts even in the face of escalating world oil prices. Up against a highly competitive global economy, where capital is extremely mobile, the considerations for all stakeholders, big or small, are the same. Better governance, which in our case will start with weeding out corruption and putting our fiscal house in order.

Improving Tax Administration

What better way to start these reforms than by improving the country's tax administration system? The program also implies catching—and convicting—tax cheats!

And because corruption is bleeding the government an estimated P2.5 billion a year, RIPS was born.

The Revenue Integrity Protection Service (RIPS), created in December 2003, has changed the perception among our revenue officials that corrupt acts will go

undetected and unpunished. The complaints it has brought to the Ombudsman as a result of its “lifestyle checks” has resulted in the dismissal of a number of high and mid-ranking officials in the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC).

The BIR has also joined forces with the Department of Justice (DOJ) and the Department of Finance (DOF) to intensify the drive against tax cheats. There are now 17 cases filed under the “Run After Tax Evaders” (RATE) operation of the DOF-BIR. As of this month, 31 tax evasion cases have been filed before the DOJ.

The “Run After The Smugglers” (RATS) program of the BOC, on the other hand, has already netted three criminal cases against 16 respondents implicated in the smuggling of frozen fish and diesel fuel. This, only after a month of operation since its launching in July 2005.

In 2003, we finally stabilized our tax effort which, after the Asian crisis, declined from 17 percent in 1997 to 12.5 percent by 2002. This was the result of systematic but painstaking remedy of processes and practices in the BIR and the BOC.

Today, we boast of modern premier tax collection agencies which are at the forefront of exploiting IT innovations. The computerization of databases for tax audit and for detecting stop-filers and non-filers has greatly improved tax compliance in the BIR and the BOC. The system also facilitates tax filing and, more critically, tax payment. The key is the establishment of arms-length and no-contact systems between the taxpayers and tax collectors.

Tax collections from both BIR and BOC are steadily increasing. We also ordered all fee-collecting agencies to review their rates and upgrade their services in exchange. Acceding to the suggestion of Congress, we have allowed the use of excess income by agencies and the retention of income by hospitals, state colleges and universities (SUCs) and a number of regulator/offices.

Hence, from P563.73 billion in 2001, and P567.14 billion in 2002, revenue collections were up by 10.5 percent to P626.6 billion in 2003, and by another 11.7 percent to P699.8 billion in 2004. Total government revenues for the first semester of 2005 was up by 12 percent from last year's collection, amounting to P384.4 billion.

Passing New Tax Measures

Given the still critical state of our public finances, we could not afford to wait for these administrative improvements to fully take root. Moreover, systemic flaws in the tax structure needed to be remedied because of the inequities and inefficiencies they breed.

To remedy these structural flaws and revitalize revenue generation, the Executive Branch proposed eight (8) new revenue measures to Congress last year. Congress has enacted three of these measures into law.

The indexation of excise tax on tobacco and liquor (RA 9334), signed into law in December 2004, is expected to generate P15 billion a year in revenues starting in 2005. It has enhanced the responsiveness of our tax system to the economy by making the periodic updating of specific tax rates on alcohol and tobacco, based on the inflation rate, automatic. It also makes automatic the reclassification of tobacco and alcohol products according to net retail price. No longer will these adjustments need to go through Congress. Notably, some 5 percent of the additional tax yield is earmarked for health expenditures.

The Attrition Act of 2005 (RA 9335) is the precursor of performance-based compensation in government, providing for a system of reward and punishment for BIR and BOC personnel / to encourage efficiency and results in tax collection. It is projected j to generate some P5 billion to P10 billion in additional revenues.

The Expanded Value Added Tax (EVAT) will generate some P82.6 billion to P105 billion in revenues for government in 2006. It lifts VAT exemptions on a wide range of products like fuel power, and professional services of doctors and lawyers, easing tax administration. It authorizes the Executive to adjust the VAT rate from the current 10 percent to 12 percent. It also raises the corporate income tax rate from 32 percent to 35 percent starting in 2005 up to 2009.

Every one of these new tax legislations, especially the New Value-Added Tax Law, was hard fought in Congress. Understandably so for Congress represents the people and voices their sentiments.

I enjoin everyone to look at the laws beyond its transition pain to its larger long-term benefits. The implementation of these laws offers new opportunities for more and better social services, for strategic infrastructure that will invigorate our public services and push up a flagging local economy.

Indeed, the National Budget is a good leveler of the human condition, particularly for the poor among us.

For too long, we have been suffering under the scourge of spending 4 percent to 5 percent for social services like health and education when our neighboring countries were allocating 7 percent to 8 percent of GDP for these services to develop their human resources.

For too long, we have been allocating 1.2 percent to 2.4 percent of our GDP for infrastructure development when Malaysia and Thailand were allotting 7 percent to build roads, irrigation and telecommunications systems annually.

We are still far from that desirable level of public expenditures, but in the 2006 Budget we propose to achieve inroads towards those levels for the sake of the future of the nation, especially its youth.

By implementing the new VAT law we have one big chance to effect a permanent reduction of whole public sector deficit and liberate ourselves from a heavy debt burden. We chose the option to bring down our budget deficit significantly for the coming year by some P55 billion from P180 billion this year to P124.9 billion.

This will translate into a budget deficit going down from 3.4 percent of GDP in 2005 to 2.1 percent in 2006, improving further on our Plan target for the coming year.

Executing a Tight Spending/Austerity Program

We cannot—should not—merely rely on new revenues to answer the country's fiscal problems. Fiscal responsibility dictates that we address both the revenue and expenditure sides of the budget equation to be able to attain our fiscal targets and promote growth.

Through the implementation of austerity and expenditure-efficiency measures, we have managed to curtail the ballooning National Government deficit for two consecutive years now. We have reduced the deficit from P210.7 billion in 2002 to P199.9 billion in 2003 to P187.1 billion in 2004 despite the absence of significant revenue measures. We have managed to stay on track with our objective of balancing the budget by 2010.

The implementation in August last year of Administrative Order No. 103 on austerity measures in government generated during the last four months of 2004 some P3.5 billion in savings, P3.1 billion from government financial institutions (GFIs) and government-owned and/or controlled corporations (GOCCs). Savings from the same program during the first seven months of 2005 has amounted to P239 million.

Some P61 million in savings has likewise been realized from the implementation of Administrative Order No. 117 on the four-day workweek which was observed in April and May this year. The scheme reduced fuel, electricity and water bills and other operating expenses. Government personnel, for their part, saved on fare and meals.

The austerity program of government helped it through years of stagnant revenue collection. The program has ingrained in civil service the ideals of a simple lifestyle devoid of frills and favors.

It also forced government officials to manage resources and focus on results that matter.

The program gave birth to efficiency measures like generic position titles to encourage multi-tasking, prioritization tools like SEER (Sector Efficiency and Effectiveness Review) and ODA Portfolio Reviews, and compensation reforms in GOCCs and GFIs.

We shall continue to implement a disciplined and efficient public spending strategy to improve budget allocation, with emphasis on areas with the greatest impact to benefit the greatest number; to rationalize National Government spending for devolved services; and to reverse the decline in public investments.

Modernizing Government Procurement

The government's procurement system has long been criticized for its lack of transparency, for its vulnerability to corruption, for the subjectivity that permeates its determination of bids specifications.

To reform the system, the National Government pushed for the passage of the government procurement reform bill which became Republic Act 9184, the Government Procurement Reform Act (GPRA). The law redefined the procedures and processes in government purchasing, resulting in enhanced transparency, competitiveness, and accountability in procurement.

As of June 30, 2005, the government electronic procurement system (GEPS) has registered 3,530 national government agencies (NGAs), GOCCs, and local government units (LGUs); and 13,072 suppliers among its clients/users.

For the first six months of 2005 alone, some 36,373 bids worth P131.1 billion have already been posted during the same period.

Eight (8) regional depots have been established in Baguio, Tuguegarao, Legaspi, Cagayan de Oro, Cebu, Bacolod, San Fernando (Pampanga), and Davao to provide quality but affordable common-use supplies to LGUs as well as NGAs and GOCCs with offices in the regions. Three (3) more regional depots—in Tacloban, Koronadal, and Butuan—will be established before the year ends.

Purchases from regional depots allow the government to post an average of 40 percent savings from said purchases. Savings for the first semester of 2005 alone has been recorded at P29.4 million.

Meanwhile, the professionalization of government procurement function called for in RA 8194 is on track with the issuance of the Philippine Bidding Documents (PBDs), for mandatory use by all government entities by July 1, 2005.

The release of these PBDs is significant. They are the results of the harmonization efforts of the government of its procurement rules with those of the three major multilateral creditors. The generic procurement manuals are being pilot tested for possible issuance next year. To date, around 90 percent of LGUs and 18 percent of NGAs have been trained on the law and on the use of PBDs.

Rationalizing the Bureaucracy

Rationalizing and rightsizing the bureaucracy is not an easy task. But it has to be done if we want government to be able to deliver the programs and services called for in our Development Plan, if we want the bureaucracy to shape up into an efficient and performance-oriented machinery.

Conducting a strategic review of the operations and organizations of the Executive Branch enables each government agency to strengthen the functions needed to meet the requirements of growth and reform and improve the quality and efficiency of public services. This will be possible with redeploying resources and weeding out unnecessary and redundant functions and tasks.

The Office of the President has led the way. It has abolished some 102 agencies/offices under it whose functions are no longer necessary, and transferred 22 others whose functions are already being carried out by other government entities.

In October last year, I issued Executive Order 366 to authorize the strategic review of government operations. The EO provides for a function-based separation program that offers redeployment to those affected but wanting to stay in the service to be assigned to other offices. It also offers separation incentives to those who want to leave government.

I have instructed the Department of Budget and Management (DBM) to organize a Skills and Livelihood Investment Team to cushion the abrupt change in the life of those wanting to be separated from the service, from being public servants to being private entrepreneurs.

As of today, the DBM has forged agreements with the Technology and Livelihood Research Center (TLRC), the Technical Education and Skills Development Authority (TESDA), the Philippine Overseas Employment Administration (POEA), the Department of Labor and Employment (DOLE), and the Land Bank and the Development Bank of the Philippines on an Alternate Employment Program for these affected personnel.

Yes, there is life after or outside government.

Effecting Power Sector Reforms

To ensure a reasonably priced, sufficient, and accessible energy for our nation and to mitigate the impact of escalating world oil prices, we have embarked for the past five years on an increased utilization of indigenous and renewable energy sources.

Our foresight has paid off. There has been a steady growth in our energy self-sufficiency level, from 45.1 percent in 2001, 51.1 percent in 2002, 53.9 percent in 2003 to 56.6 percent in 2005.

We have also opened up the power sector to private players through the privatization of the National Power Corporation (NPC) and its generating plants. The act hopes to stimulate competition and efficiency in the sector. It will also empower the Filipino people through the establishment of a Wholesale Electricity Spot Market (WESM) to choose the most efficient and low-priced offer from among competing firms.

Though the National Government has assumed some P200 billion of NPC debt as provided for under the Electric Power Industry Reform Act (EPIRA), NPC's privatization will relieve the government of funding capital-intensive power-generating plants. We can thus channel investments in the power sector to other priority programs of the government like education or health.

With the rising world crude oil prices, surging to as much as \$66/barrel, we needed to do something more. I have tasked the Department of Energy (DOE) to beef up its efforts in implementing energy efficiency and conservation measures (ENERCON). The implementation of ENERCON hopes to temper the rise of prices of goods and services.

We are strongly promoting the use of alternative fuel for gas transport. Some 25 stations (15 in Davao, 5 in Metro Manila, 5 in Baguio) are already using coco-biodiesel. Some taxis in Cebu are using autogas or LPG.

I have approved a cut in the import tariff on ethanol, another renewable source of energy, from 10 percent to one percent, to promote its use as an additive to gasoline. Hopefully, by 2007, we shall have the first ethanol plant in the country.

The government through the Metro Manila Development Authority (MMDA), is implementing the Organized Bus Route (OBR) program to help save at least P2 billion a year in fuel consumption. The program will also help decongest EDSA by dispatching buses from one common terminal one at a time.

Aside from transport and fuel efficiency measures, we are also pushing for electricity conservation measures.

The Power Factor Improvement Program (PFIP) for government agencies will involve the installation of a capacitor (PF equipment) in government buildings to

help reduce electricity consumption. Pilot tested in DOE's building in September 2004, the program resulted in improving the building's power factor from a baseline average of 77.7 percent to as high as 99.7 percent in January 2005. Given these factors, some P2.83 million worth of savings monthly may be realized from this program.

Under the government's *Palit-Ilaw* Program, we are encouraging the replacement of incandescent bulbs with energy-efficient fluorescent lamps. We are expecting some P95 million savings to be generated from this program within a seven-year period.

Fighting Graft and Corruption

Corruption makes government ineffective and robs the people of resources for delivery of public services.

In March 2003, we forged an alliance with civil society groups to help government look into the corrupt practices of its officials and employees. A Memorandum of Understanding was signed creating the "Lifestyle Check Coalition."

I have directed the Presidential Anti-Graft Commission (PAGC) to lead the lifestyle check of Cabinet officials and heads of GOCCs/GFIs down to Bureau Directors. It has, so far, ordered administrative punishment to 23 such officials—2 former Commissioners, 1 Administrator, 10 Executive/Regional/Bureau Directors, 9 Prosecutors, and 1 Provincial Agrarian Reform Adjudicator.

I have tasked the Office of the Ombudsman (OMB) to supervise the prosecution of officials who fail the lifestyle check. To strengthen its capacity to litigate, we increased the number of prosecutors of OMB by 50 percent, from 52 in 2003 to 104 in 2004 to 139 in 2005. The rate of conviction grew from 6 to 14 percent in 2004 as a result of this effort.

In March 2004, the OMB, Civil Service Commission (CSC), and Commission on Audit (COA) forged the "Solana Covenant." This five-year anti-corruption plan seeks to establish a database for the statement of assets, liabilities and net worth (SALN) of all government employees. The CSC, armed with procedures to improve compliance and monitoring, will supervise the implementation of the Covenant.

Graft and corruption can also be addressed in terms of strengthening public financial accountability. The COA is implementing an electronic new government accounting system (e-NGAS) to produce timely, correct, reliable, and complete financial statements and reports in accordance with the policies and procedures under the internationally accepted accrual accounting system. As of December 2004, e-NGAS has been installed in 15 national agencies, including COA itself,

and in 2 LGUs. Before the year ends, the system will be installed in 296 agencies and in 420 more by 2006.

We have also established an Internal Audit Program in the BIR to conduct post-audit review and evaluation of tax investigation reports on closed and terminated tax cases in the regional offices and audit on cash and non-cash accountabilities of Revenue Collection Officers and other accountable employees. A similar endeavor will be undertaken in the BOC to strengthen its internal audit program through the creation of an Internal Audit Office.

THE 2006 BUDGET: Alleviating the Pain

In crafting the 2006 National Budget, the Administration took into consideration certain critical factors—our development agenda, the domestic and international macroeconomic environments, and the further steps we still have to take towards fiscal and economic reforms.

Prudence, responsiveness, integrity, accountability, and balance are hopefully reflected in its numbers and figures which speak not just in terms of digits and pesos but—more—in terms of impact on the life of the Filipino people.

I said in my SONA that we will not waver in our commitment to economic reform and fiscal discipline. The FY 2006 proposed expenditure program is an echo of this commitment and, because of our recent bold steps in revenue reforms, we not only have the means to implement the government's 10-point agenda but also the will to do so. We now have the opportunity to revitalize the economy, to improve public services and the lives of our people.

Expenditure Highlights

Our proposed budget remains lean and wanting. In the context of our national income, it will account for 17.6 percent of GDP which compares with this year's 17.3 percent and the 2004 ratio of 18.3 percent. Contrast these with the average ratios of previous Administrations: 18.8 percent from 1986-1991; 19.4 percent from 1992-1997; and 20 percent from 1998-2000.

Given our efforts to trim down the budget deficit over the last four years and, concomitantly, our borrowing requirements, the expansion of the national government's debt servicing obligations in the coming year is projected to slow down starting next year. Hence, the larger portion (79 percent) of the P134.7 billion increase of the coming year's budget will go towards beefing up productive expenditures.

If we remove the P166.5 billion which, by law, we have to set aside for the Internal Revenue Allotment (IRA) of LGUs, the largest portion—43.1 percent or

P232.3 billion—of this free or discretionary budget will go to social services, particularly to education, and social welfare and community development.

This is followed by the economic sector which is slated to receive 25.8 percent - P138.9 billion - of discretionary expenditures. General public services, including public order and safety, and defense will account for the remaining 21.3 percent (P114.9 billion) and 9.7 percent (P52.4 billion) of the discretionary budget.

Topping the list of departments having the biggest allocation is the Department of Education. As in the previous years, DepEd will continue to get the largest allocation of P119.1 billion. We have acceded to the department's proposal for an added P7.1 billion budget to accelerate the improvement of the quality education of our youth, the future of this nation.

Next in rank is the Department of Public Works and Highways (DPWH), with P62.3 billion; Department of National Defense (DND), P51.6 billion; Department of the Interior and Local Government (DILG), P45.6; and Department of Agriculture (DA), P15.6 billion.

By expense class, Personal Services (PS) will amount to P330.5 billion; Maintenance and Other Operating Expenses (MOOE), P616.7 billion; Capital Outlays, P106.1 billion [(exclusive of the 20 percent of IRA of LGUs); and Net Lending, P8.2 billion].

We are proposing that the budget for capital outlays or investments be allowed to grow by more than 50 percent to enable a public infrastructure program of P126.7 billion in the coming year, up from P115.6 billion this year.

More specifically, this budget submission incorporates a P72.4 billion Infrastructure Program which will be implemented by the DPWH, the Department of Transportation and Communications (DOTC), and the DA, among others, to revitalize economic growth in the coming year and strengthen the foundation for growth in the medium term. This represents a 28 percent increase over the P56.5 billion provided for this year.

We are submitting a 32.8 percent increase of the budget for roads, bridges, and flood control under DPWH. We are also doubling the budget for the development of airports, telecommunications, and land transportation under DOTC, from P2.5 billion in 2005 to P5.9 billion in 2006, in view of the expenditure arrears and shortfalls that have accumulated in this effort. Similarly, we are proposing that the funding for irrigation, amount to P5.6 billion for 2006, compared to P5.3 billion in 2005, in a bid to improve agricultural productivity.

We have increased the funding for foreign-assisted projects to P56.7 billion in the coming year, up from P37.0 billion this year, to ensure that our capital outlays will be funded by long-term official development loans with concessional terms.

Financing the Budget

Despite the programmed increase in the budget next year, we look forward to fully financing it, and at the same time bring down the budget deficit to P124.9 billion from the current year target of P180 billion. This will represent significant deficit reduction equivalent to 1.3 percent of GDP, from the 3.4 percent ratio to GDP this year to 2.1 percent in 2006.

If we succeed, we will be ahead of our fiscal consolidation program in the medium term.

This optimism is partly borne by the forecasted 23.7 percent expansion of revenues in 2006, the stronger economic growth (6.1 percent), expected inflation rate (7.5 percent), and the probable robust growth of imports (11 percent). Next year, revenue collections can finance 88.6 percent of anticipated disbursements compared to 81.3 percent this year and 78.9 percent in 2004.

The recent passage of three new tax laws and the systems improvements that have been set in place in the BIR and in the BOC should assure a strengthened tax base, especially after the lifting of the temporary restraining order on the new VAT law. That event alone is anticipated to yield additional revenues ranging from P82.6 billion to P105 billion.

Even allowing for the implementation of mitigation measures such as the reduction of the tariff rate from 5 percent to 3 percent as contained in Executive Order 440, the new VAT law will yield more than enough to permit the decline of the deficit and allow for larger expenditures.

Of the P968.6 billion revenue inflow, P874.3 billion will come from tax revenues and P94.3 billion from non-tax sources. By major collecting agency, the BIR is expected to produce P675.4 billion; the BOC, P190.5 billion; and the Bureau of the Treasury (BTr), P51.9 billion.

To finance the budget deficit, the BTr will raise P531.6 billion in domestic and foreign borrowings. This is P44.8 billion or 7.8 percent smaller than this year. Domestic borrowings will constitute the larger part (P310.2 billion or 58.3 percent) reducing our vulnerability to foreign exchange movements.

Despite these borrowing targets, we will bring down our national government debt to a level equivalent to 63.1 percent of GDP. This will be a substantial improvement from 72.5 percent in 2004 and this year's 80 percent debt-to-GDP ratio, en route to the 52 percent targeted debt ratio by 2010.

New Programs/Provisions

The 10-Point Agenda this Administration is pursuing remains to be the center of the 2006 Budget. The introduction, however, of new major allocations in the budget is necessary to support this agenda.

I made a promise to the government workforce to increase government pay next year. It has been four years since a general salary increase in government was implemented. I will not renege on that promise. An allocation of P13.1 billion has been included in the Compensation Adjustment Fund to provide for that promised pay increase.

Some P4.8 billion has been set aside in the Miscellaneous Personnel Benefits Fund (MPBF) for unpaid premiums to the Government Service Insurance System (GSIS) and other GFIs, including PAG-IBIG, Philippine Health Insurance Corporation (PHIC), and the Employees Compensation Commission (ECC). Some of these claims have been pending since 1997 in the face of the national government's lack of resources. Their settlement should improve the services and benefits extended by these entities to the government civil servants.

I have proposed P5 billion under the Allocation to Local Government Units (ALGU) for the *Kilos Asenso* Program, a grassroots movement for prosperity initiated by local government executives of provinces, cities, municipalities, and barangays. The program requires its component members to implement action projects, such as the building farm-to-market roads and potable water systems, in their respective communities, down to *sitios*, in line with government's program to fight poverty. The fund will enable the national government to provide counterpart funds to these LGU-led effort.

The *Kalayaan Barangay* Program is being provided P3.0 billion a year for six years, from 2005 to 2010, to pursue basic infrastructure works such as access roads, water system and electricity, facilities, and schoolbuildings in 500 conflict-affected barangays identified by DND. Another 100 barangays, to be identified by OPAPP, are also covered under the program.

THE 10-POINT AGENDA: Moving Towards Socio-Economic Renewal and Fiscal Health

Much has been accomplished. Much has yet to be done. The economic fundamentals we have built to strengthen our commitment to reform and responsible development need be sustained in 2006.

To do so and ensure quality of life for each and every Filipino this Administration has crafted a National Budget anchored its 10-Point Agenda. It is a Budget that invests heavily on creation, education, healthcare, electrification, roads transportation infrastructure.

It is our firm stand that the proposed Budget for 2006, if approved, will move us several steps closer to the attainment of the 10-Point Agenda, to the attainment of socio-economic renewal fiscal health for our country and people.

Balanced Budget

When I assumed the Presidency, the first item in my fiscal agenda was to balance the budget. So far, we have managed to rein in the budget deficit, from P199.9 billion in 2003 to P187.1 billion in 2004.

Budget deficit for the first seven months in 2005 stands at P82.6 billion, way below the target deficit of P180 billion for the year.

To help us achieve this target, we have provided a total of P814.5 million for the Tax Administration Computerization Project enhancement of various tax systems of BIR.

As part of the computerization of BIR's systems/operations agency launched a new BIR website and portal in December 2004. The website makes tax information and services accessible to agency clientele and the general public.

The BIR has introduced the eTIN (Tax Identification Number) whereby taxpayers can register via the internet. Taxpayers can now use the BIR website to pay their tax dues through the Electronic Filing and Payment System (eFPS). As of January 2005, some 11,537 taxpayers have enrolled under the system.

An integrated computerized system is also being set up in BOC. The system will optimize revenue collection, facilitate trade, and improve transparency and integrity in BOC transactions.

Some P148.7 million has also been allocated in the 2006 Budget for BOC's computerization program. The program will enable electronic exchange of data between BOC and its clients, thereby preventing incidence of fake licenses and permits presented to BOC. The program will also facilitate faster verification of documents.

The BOC hopes to complete the upgrading of the program's systems requirements by the third quarter of 2005.

We are pushing hard for the implementation of the government's rationalization, it will help us focus on the right things that government should do and how to do

them right. The program will eliminate unnecessary and redundant functions as well as minimize overlaps and duplications between and among agencies.

We have allocated P10 billion for the rationalization program. It will be used to pay the retirement/separation benefits plus incentives of those who voluntarily opt to retire or be separated from the service. No one will be forcibly removed from the service because of the program.

To further our efforts in good governance, in terms of transparent, accountable and efficient processing and releasing of budget documents, we are providing the DBM's electronic budget system with P214 million to sustain its operations. The eBudget not only improves budget administration and accountability, it also benefits client-agencies by way of eliminating fraudulent documents.

Education for All

It is our vision that every Filipino youth of school age will have access to free and quality education.

It is our goal that this Filipino child shall have the opportunity to learn in a school conducive to learning.

In a bid to partly address the issue of dropouts and absenteeism due to poor health and malnutrition, we have allocated P1.5 billion for DepEd's "*Malusog na Simula*" program. The program provides an estimated 2.5 million grade schoolers ages 6 to 12 with vitamin and iodine-enriched food to arrest malnutrition and lessen the incidence of drop-outs and absenteeism. Some 167,000 pupils have already availed of the program early this year.

The Department of Social Welfare and Development (DSWD) complements the DepEd program by feeding more than 64,000 pre-schoolers from 2,170 barangays in 4th-6th class municipalities and in day care centers in the National Capital Region. The DSWD is provided P200 million for this activity.

We will resolve the deteriorating quality of education in our country by strengthening the skills on content of our teachers in English, Science, and Math. The P581 million proposed funding for this in-service training will benefit 25,000 teachers or five percent of the total teaching population, providing them three weeks a year of university-based training.

In line with the principle of Education for All, we have set aside P100 million to train teachers on the new standard Madaris curriculum to put the level of learning of Filipino Muslims at par with the national average.

The School First Initiative, on the other hand, has been provided a budget allocation of P250 million to administer a competitive grant of P50,000 to 5,000 schools to encourage them to develop School Improvement Programs.

We will upgrade the quality of education in pre-schools, particularly in 4th and 5th class municipalities. Under the new Pre-School Education Program, some 10,000 day care workers will undergo training in the use of the standard pre-school curriculum.

With the increasing population of enrollees, we need to beef up our efforts to strike the right balance between the number of students and the number of classrooms that will house them.

A total of P2.9 billion has been provided in the 2006 Budget for the construction of some 7,000 classrooms. Specifically, P1 billion will be used in areas experiencing acute classroom shortage.

From July 2004 to June 2005, a total of 11,533 classrooms have already been constructed, exceeding the target of 6,000 classrooms by 92 percent.

We are also increasing the provision for the Government Assistance to Students and Teachers in Private Education (GASTPE) to P2 billion to provide for a bigger number (100,000) of high school students who can be accommodated in the program. In the coming year, we will be sponsoring some 475,000 students under this voucher-type program.

Our new textbook policy provides for an ideal ratio of one textbook for one student in all public schools nationwide. We have thus allocated P1.81 billion for the purchase of 18.1 million pairs of English textbook and manual at P50 per unit. This means that in 2006, the ratio of 1:1 English book per pupil for all grade *levels will* be achieved.

Automated Elections

The proposed budget of the COMELEC has been increased by as much as 135 percent, from P1.4 billion in 2005 to P3.3 billion in 2006. Some P1.6 billion of this amount will be used for the automation of the electoral process, particularly the modernization of data submission and counting systems.

In preparation for the 2007 national and local elections, the COMELEC is being provided an additional P250 million in the 2006 Budget.

Transport and Digital Infrastructure

We will continue to link the entire country through a network of transport infrastructure and employ e-government to improve the delivery of public services to the people.

Transport and digital infrastructure facilitate access to markets, economic opportunities, and social services in a way that significantly reduces poverty. A substantial funding support is thus provided to infrastructure agencies—DPWH (P62.3 billion) and the Department of Transportation and Communications (DOTC), P14.2 billion—to make this happen.

Some P3.3 billion will be set aside for airports, navigational facilities, ports and lighthouses to ensure safe flights and sea voyages within our territory. Construction has already started for new airports in Bacolod, Iloilo, and Coron. Existing airports in Ilocos Norte, La Union, Clark, Bohol, and Northern Palawan are also slated for improvements to address expected tourism booms. Not to be neglected are our small regular and secondary airports and their trunklines whose improvement is being provided P1.0 billion.

The provision for nautical highways amounts to P1.0 billion. Not only will they further reduce transport cost but also enhance public access to tourism areas throughout the country, at the same time offer an alternate route for the flow of agricultural products.

To date, the expanded nautical highway system, which includes the Cebu-Bohol-Camiguin RO-RO port, has reduced transport costs by 37 to 43 percent for passengers and 24 to 34 percent for cargo. It has also reduced travel time by 10 to 12 hours.

Reduced travel time will improve delivery of supplies and products for businesses. It will improve labor markets and the quality of life in general. Infrastructure improvements, moreover, will increase the attractiveness of rural areas as investment locations while reducing congestion in urban areas. For this purpose, the improvement of national arterial roads as well as secondary roads will be provided P36.9 billion.

To reduce dramatically the frequency of road traffic accidents and ensure pedestrian safety, some P6.9 billion and P531 million are set aside for road maintenance and road safety, respectively.

The P6.9 billion for road maintenance will come from the Motor Vehicle User's Charge (MVUC) which, incidentally, also funds government's air pollution control program. The amount represents an 11.3 percent increase from this year's provision of P6.2 billion.

We have already constructed 4,774 kilometers of national roads, more than 500 kilometers of farm-to-market roads, and 41,741 lineal meters of national bridges

in 2004 alone. Provisions to rehabilitate, replace, complete the country's bridge network amount to P1.8 billion. The amount is nil compared to what it can do to bring down geographical obstacles to our economic development.

We will uphold the Millennium Declaration Vision to make available to a wide segment of our population the benefits of new technologies, ICT in particular, through improved digital infrastructure. We need to minimize the so-called "digital divide" that is a concern of governments all over the world.

The latest United Nations Global E-Government Survey ranks our country seventh in the E-Governance Readiness Index among 45 countries in the whole of Asia. We rank 47th among 191 UN members-states surveyed, overtaking China, Russia, Thailand, India, among others.

The country has accomplished much out of its annual P1.0 billion e-Government Fund. It developed the e-Government Portal, eUniversity, eLGU and Community eCenter; launched the Philippine CyberServices Corridor; and created one million ICT jobs.

We will continue to infuse P1.0 billion to our E-Government Fund and another P1.0 billion to the Commission on Information and Communications Technology (CICT) to carry out its mandate of developing the country as a world-class ICT services provider.

Termination of MILF and NPA Conflicts

I have always dreamt of the day when insurgencies and similar conflicts are things of the past. That day is upon us.

The 2006 Budget provides P99 million to the Office of the Presidential Adviser on the Peace Process (OPAPP) to enable it to implement a comprehensive peace program through the pursuit of social, economic, and political reforms/Building and nurturing a climate conducive to peace is one such program.

We have to put back on track the negotiations with communist insurgents, MILF secessionists and other rebel groups which were derailed for almost two and a half years because of a previous all-out-war policy. In spite of the recent unilateral decision of the CCP/NPA/NDF to suspend the peace talks, communication lines have been kept open.

We are implementing the political, military and socio-economic aspects of the GRP-MNLF Peace Agreement in 1996, such as the full reintegration of MNLF members into the Armed Forces of the Philippines (AFP) and the Philippine National Police (PNP) and the devolution of powers and functions to the Autonomous Region in Muslim Mindanao (ARMM).

We have substantially increased the budget of the ARMM by 17 percent, from P7.1 billion this year to P8.3 billion in 2006. This includes providing for the requirements of the ARMM Social Fund (P1.3 billion) and the "One-Town-One-Product Project (P2.5 million of the ARMM and the Department of Trade and Industry (DTI).

We are channeling resources to develop conflict-affected areas through investments in infrastructure and livelihood, rehabilitate hospitals in ARMM to improve health care service delivery, establish Shari'a Courts, and strengthen Madrasah education. All these as part of our commitment to Mindanao and Muslim development.

Our banner peacekeeping effort will be showcased under the P3.0-billion allocation for the DND and OPAPP-led Kalayaan *Barangay* Program involving the construction of suitable access "Kalayaan *Roads*", establishment of two-classroom schoolbuildings, and provision of water and electricity in 600 conflict-affected barangays. The program will also include a livelihood and social services component.

Healing the Wounds of EDSA

My administration's goal is to have lasting peace and to heal the wounds and divisiveness that the People Power revolutions have inflicted on the nation.

We have set aside P3.0 million for the EDSA People Power Commission to conduct regular consultations with political and religious leaders. All parties have agreed on the need for the nation to become united as a people and to prepare for a long-term, multi-channeled reconciliation process.

Meanwhile, we will make sure that the pursuit of measures to address the issues and concerns of other groups that threaten the security of the nation shall be sustained.

These specific measures include accelerating the payment of compensation to victims of human rights violations from a portion of the Marcos wealth, sustaining reforms in the military to address legitimate grievances of the men in the field, and continuing consultations to pursue reconciliation and national unity.

To help alleviate the plight of the poor, the Department of Health (DOH) has been provided P10.6 billion, of which P229.0 million is intended for the *Murang Gamot* Project and the maintenance of *Botika sa Barangay* in 5,000 barangays particularly where there are no pharmacies to dispense low-priced generic over-the-counter drugs and selected prescription drugs. This will rev up our efforts towards expanding access of the poor to low-priced quality essential medicines.

We will increase in next year's budget the allocation for health premium subsidy for indigents, enabling Philhealth to provide the much-needed insurance cover for enrolled members and their dependents.

From P750 million this year, some P2.9 billion has been earmarked to cover the 4.2 million families currently enrolled under the enhanced program as well as expand the coverage of those enrolled under the indigent program.

Access to land is a crucial factor in the eradication of food insecurity and rural poverty, two hindrances to lasting peace. Some P14.5 billion has been set aside for CARP, including P4.4 billion to acquire and distribute 230,000 hectares of land to landless farmers. The effort will focus on the distribution of public lands.

Peace and order, protection of life and property, and promotion of the rule of law are very important components of our resolve to heal the wounds of EDSA.

That is why we are accelerating the modernization of the PNP, and the Bureau of Fire Protection (BFP) and the Bureau of Jail Management and Penology (BJMP). Some P23.8 million has been provided the BFP for the purchase of modern firefighting gear and accessories. The BJMP, on the other hand, has a P53.4 million allocation for the construction and improvement of various jails and facilities.

The PNP's modernization involves P50 million for the construction of 22 new police stations and an additional P133.9 million for the procurement of patrol jeeps and motorcycles, and firearms.

Judicial reforms, such as institutional integrity development, case decongestion, access to justice by the poor—all contribute to a more responsive justice system that, in turn, raise investors' confidence in the government. Some P368 million has been allocated for the Judicial Reform Support Project, substantially higher than the P161 million provided this year.

Electricity and Water for the Entire Country

In my Budget Message at about the same time last year, I was proud to report that we were able to provide electricity to 38,085 barangays out of a total of 41,945 barangays. I am even more proud to report now that 678 more barangays were added to the list by the end of 2004.

With the allocation of P437 million in the 2006 budget for electrification projects funded by the DOE and by the National Electrification Administration (NEA), I am hopeful that the remaining 3,182 barangays will be electrified by 2008.

DOE's Barangay Electrification Program using New and Renewable Energy will be allocated P76.7 million to energize 50 barangays. For its part, NEA targets to provide energy to 200 barangays and 200 sitios or a total of 8,000 consumers.

An additional P73.5 million is allocated to fund development of indigenous fuel, energy programs, and energy conservation measures.

The government's electrification program is complemented with some P500 million allocation for the provision of potable water to waterless communities within and outside Metro Manila through the President's Priority Program on Water (P³W). Beneficiaries of the program are 212 communities within Metro Manila and 201 municipalities under Peace Agreements which the OPAPP and the DND oversee under the Kalayaan *Barangay* program.

Opportunities to Create 10 Million Jobs

The creation of 6 to 10 million jobs for our people is one of the major goals of my administration. I hope to achieve this goal before the end of my term.

How will we achieve this goal?

First, by aggressive promotion of tourism activities in the country.

There has been a significant increase in the number of tourist arrivals due to intensified tourism promotion. In 2003, a total of 1.9 million tourists visited the country. In 2004, the number increased to 2.25 million which represents 18.4 percent growth from the previous year's record. From January to May this year, some 1.07 million tourist arrivals have been recorded.

These figures for the first five months of the year alone translate into 139,128 new jobs.

AFMA, provided with P17.0 billion allocation, will enhance agribusiness development activities which, in turn, will generate jobs for thousands of our people.

The *Ginintuang Masaganang Ani* (GMA) Program is allocated P2.7 billion. The amount will partly support rice and corn production which, between them, will generate 154,256 jobs.

The production of high value commercial crops, on the other hand, will provide 5,498 jobs.

The livestock industry is estimated to generate 16,249 jobs. Estimates for the contribution of fisheries to job generation number 76,220.

Coconut and abaca will each provide 300,000 and 22,000 jobs, respectively.

The first six months of 2005, a total of 135,314 agriculture-related jobs were generated due to the development of 73,925 hectares of new agricultural lands. Job opportunities are further enhanced by linking these new agricultural lands to markets in all regions of the country.

The P72.4 billion set aside in the 2006 Budget for infrastructure projects will also generate more than half a million jobs, some 65,281 of these from DPWH employment-generation projects alone.

We aim to create employment through the construction industry. During the first half of 2005, government construction projects hired 369,748 laborers for its *Kalsada Natin, Alagaan Natin* (KNAN) program.

Congress has passed a law, RA 6658, requiring all private constructors and sub-contractors of national and local public works projects to hire at least 50 percent of their unskilled and 30 percent skilled labor requirements from the residents of the locality where the project is located.

Our goal of intensifying the operation of enterprises in economic zones paid off. We have generated a total of 83,896 new jobs from January to May 2005 in the Philippine Economic Zone Authority and Subic Bay Metropolitan Authority areas.

Some P264.0 million is being allocated to the Department of Science and Technology (DOST) for its Small Enterprise Technology Upgrading Program (SETUP). In 2004, SETUP assisted 640 SMEs and provided 836 technology invention that created 13,237 new jobs. In 2006, we hope we would further strengthen the national technology innovation system, including the assistance to entrepreneurs and farmers to increase their productivity.

Due to the vigorous promotion of ICT in the country, we were able to generate 41,000 jobs for the first half of 2005. We encourage ICT-enabled businesses to provide opportunities for more jobs in the future.

The mining sector, too, has contributed 2,195 jobs during the first six months of the year. Our shift in policy on mining, from tolerance to promotion, paid off.

We targeted two birds with one stone in the housing sector. The construction of 33,935 housing units from January to May 2005 generated 263,935 jobs. These housing units are being offered at a low price to low-salaried public and private sector workers.

Decongesting Metro Manila

We hope that, by constructing roads and other transportation channels in the outskirts of Metro Manila, we shall not only decongest traffic in the Metro but also solve the overcrowding of people in the area.

We are thus allocating P1.2 billion for the construction of seven major roads to decongest traffic in Metro Manila. These are: the NAIA Expressway and other major roads leading to it (P400 million); Commonwealth Avenue in Quezon City (P220 million); R-10, including ROW, from C-2 to Zaragoza in Manila (P342 million); Quezon Avenue (P100 million); Taguig Diversion Road (P30 million); Congressional Avenue Extension in Quezon City (P30 million); and C-5 Extension (P100 million).

Some P670 million will also enable the widening and concreting of the McArthur Highway in Metro Manila, Bulacan, Pampanga and Tarlac.

We shall develop new centers for government, for business, and for housing all over the country to solve the problem of overcrowding. Hopefully, the attraction of new job opportunities as well as availability of affordable housing in the countryside will finally move people away from Metro Manila and other urban areas.

Development of Clark and Subic

The government's strategic vision is for Clark and Subic to become premier international service and logistics centers in the Southeast Asian region. It can be a major transshipment point of goods and services and a key investment area in this part of the world.

The development of new infrastructure facilities in Clark and Subic will boost their competitive advantage in the region. It makes sense to build on what the US government left in terms of infrastructure and facilities as there will be little requirement for developing the place.

We shall pursue air liberalization by loosening restrictions imposed on the number of flights and movement of cargo flights in the area.

Some P111 million has been set aside for the improvement and upgrading of various roads within Clark and Subic and other road networks leading to these economic zones.

The development of Clark and Subic will certainly effect progress and development not just in the immediate locality but in the nation as a whole.

CONCLUSION: A Better Life for the Filipino

As your President and as a Filipino, I appeal to Congress to view the National Budget for 2006 from the point of the Executive Branch which shall implement it.

We see the National Budget as the propelling force to move the 10-Point Agenda forward. We see it as an instrument for realizing the growth and reform targets spelled out in the Medium Term Philippine Development Plan. We see it as boosting our aspirations for the country's social and economic renewal.

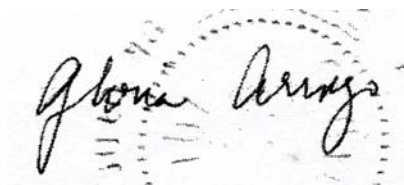
With the 2006 National Budget anchored on the 10-Point Agenda, I am confident that our Ship of State, once floundering in economic and fiscal morass, will find its way to shore and to our own promised land.

A land where 86 million Filipinos can live a life of relative comfort and peace. Where schoolchildren, regardless of social status, have equal access to the halls of learning. Where, even in its remotest parts, there is electricity and potable water. A land where people lead a productive and fruitful life.

I assure every Filipino, rich or poor, in the city or in the farm, in government or in business, in school or out of it, that it is a Budget that envisions a better life for all.

Together with legislative and administrative reform measures, this proposed P1.053 trillion Budget will ensure a better quality of life for all Filipinos. I trust Congress will look on it with favor.

Maraming salamat po.

A handwritten signature in black ink, reading "Gloria Arroyo". The signature is written in a cursive style and is positioned over a faint, circular watermark or seal that is partially visible in the background.