RELEVANT MACROECONOMIC PARAMETERS

1. What macroeconomic parameters are crucial in the determination and review of the budget?

The major macroeconomic parameters crucial in the determination and review of the budget include the following level: level and growth in real/nominal Gross National Product (GNP) and Gross Domestic Product (GDP), inflation rate, 91-day Treasury bill rates and the London Interbank Offered Rate (LIBOR), foreign-exchange rate, level and growth of exports and imports, and population growth.

2. How are these macroeconomic parameters determined as bases of the budget levels?

The macroeconomic parameters or the targets and assumption which form the basis of the budget estimates are determined by the DBCC which coordinates the projections of main fiscal and economic authorities such as the National Economic and Development Authority (NEDA), the Department of Finance (DOF), the Bangko Sentral ng Pilipinas and the Department of Budget and Management based on historical and/or desired patterns of economic behavior.

3. What is the Gross National Product (GNP)?

The Gross National Product (GNP) is the measure of the total value of all final goods and services produced in an economy in a given year. It takes into account everything produced by Philippine nationals or companies both within or outside of the country and includes remittances of Overseas Filipino Workers (OFWs). To avoid "double counting," however, the GNP only sums up all the value-added of final products or considers only the final value of goods and services produced and excludes the contributions made by intermediate producers.

The GNP is oftentimes used as an indicator of economic activity. A higher GNP indicates an expansion of the economy's production capacity which generally means that more jobs are created and more incomes are received. The per capita GNP (GNP divided by population) is also an important gauge of economic development and is often used as the basis for classifying countries as underdeveloped or developing.

4. How does the GNP affect the budget?

A higher GNP generally results in a larger tax base and consequently, higher revenue collections from the domestic market which could be made available to the government to finance public services and development programs and projects or to increase the budgetary surplus, depending on government's policy.

5. What is inflation and how does it affect government budgeting?

Inflation refers to the persistent upward movement in the general price level resulting in the diminishing purchasing power of a given nominal sum of money. The inflation rate is the annual rate of change in the general price level often measured by the Consumer Price Index.

When the inflation rate increases, government revenues particularly from domestic-based taxes also rise because of the increase in the prices of taxable products. At the same time, disbursements are also expected to increase because of higher cost requirements for maintenance and other operating expenditures such as supplies and materials, transportation services and capital outlays.

The inflation rate thus serves as an indicator of the possible level of increases in the agency's budget to cover price escalation.

6. What is the 91-day Treasury Bill rate? How does it affect the budget?

The *91-day Treasury Bill (T-Bill)* rate refers to the interest rate on Treasury Bills maturing within 91 days issued by the national government to general funds for general purposes, including the payment of outstanding obligations of the government. It serves as a ballweather indicating the rate of interest in the market.

The T-Bill rate is a significant factor affecting the budget in terms of the level of domestic debt, the cost of servicing the public domestic debt, and the level of revenues via the tax withheld from the interest income on the sale of government securities. An increase in T-Bill rate will raise government revenues due to the 20% withholding tax on interest income. At the same time, however, it will increase additional requirements for interest payments.

7. What is the LIBOR and its significance in the budget?

The *London Interbank Offered Rate (LIBOR)* is the rate offered to prime borrowers in the international capital market based in London, and is used as the base for most interest quotations.

An increase in LIBOR means an increase in expenditure for foreign interest payments which will reduce budgetary surplus if the increase in foreign interest payments will not be matched by additional revenue flow.

8. How does the foreign exchange rate reckon with government expenditures.

The foreign exchange rate is the rate at which a currency is exchanged for another currency, in the case of the Philippines, the peso to the US dollar. Any change in the exchange rate assumption will correspondingly change the peso cost of all expenditures paid in US dollars like foreign debt service, both repayment and interest, the regular operating requirements of foreign-based government offices like embassies, consulates, etc. and other government contracts which are to be settled using foreign currency.

9. What is the role of the level of imports in determining the level of expenditures?

The level of imports is not a direct input in the determination of expenditures. However, it is a key input in the estimation of revenues, particularly international trade taxes and income/sales taxes. An increase in the import level implies additional tax revenues and therefore a corresponding increase in the cash surplus.

10. What is the implication of population growth on expenditure?

Growth in population means higher expenditure requirements for government because of more demand for services. Population growth is specifically important in projecting population-based expenditures like education, health and other social services.