REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
MALACANANG, MANILA

CORPORATE BUDGET MEMORANDUM No. 29

F O R : ALL HEADS OF GOVERNMENT-OWNED AND/OR CONTROLLED CORPORATIONS, INCLUDING GOVERNMENT FINANCIAL INSTITUTIONS AND ALL OTHERS CONCERNED

SUBJECT : POLICY GUIDELINES AND PROCEDURES IN THE PREPARATION AND SUBMISSION OF BUDGET ESTIMATES FOR FY 2010

1.0 PURPOSE

1.1 To provide the overall macroeconomic and fiscal policy framework and thrusts for FYs 2010-2011 within the context of the Medium-Term Philippine Development Plan, 2004-2010 (MTPDP) and other policy developments;

1.2 To prescribe the guidelines and procedures in the preparation and submission of requests for budgetary assistance from the national government in FY 2010;

1.3 To prescribe the guidelines and procedures in the preparation of financial and related data to be incorporated in the Budget of Expenditures and Sources of Financing for FYs 2008-2010 and the Corporate Operating Budget (COB) for FY 2010; and

1.4 To set the schedule of budget preparation activities.

2.0 BUDGET FRAMEWORK

2.1 The FY 2010 Budget will reflect the Arroyo Administration's commitment to the strategy of fiscal consolidation, and the completion of its Ten-point Agenda, key programs stated in the various addresses on the State of the Nation, and the Millennium Development Goals. In particular, the budget shall give priority to strategic ongoing programs and completing projects which will aim to enhance economic productivity and social equity in the country in the aftermath of the global economic slowdown.

2.2 Given the challenges introduced by the global financial crisis, performance/results orientation becomes more critical. Thus, the sustained and aggressive implementation of major public sector reforms shall continue to be pursued and institutionalized in the planning and budgeting arenas. These include the Medium Term Expenditure Framework (MTEF) and the Organization Performance Indicator Framework (OPIF).

2.3 MTEF

2.3.1 The MTEF will be in its fourth year of implementation (starting the 2007 budget preparation cycle), with the Forward Estimates (FEs), or estimates of the future costs of existing policies, serving as the determinant of the available budget for new projects as well as serving as validation instrument for assessing agency proposals.

2.3.2 For the 2010 budget preparation cycle, the FEs for 2009 up to 2011 based on the 2009 NEP were updated, and a new set of FEs for 2012 has been formulated in consultation with the departments/agencies concerned. The updating considered changes in policy (e.g., per the FY 2009 GAA) and macroeconomic parameters. In view of unavailability of relevant inputs during the updating process, actual OPIF-based performance data will be used in subsequent phases of budget preparation to further refine the FEs and evaluate budget proposals.

2.3.3 The preparation of the Paper on Budget Strategy (PBS) continues to be undertaken, relating progress in meeting development objectives with resource allocation.

2.3.3.1 Consistent with Presidential pronouncements, the following priority sectors guided the FY 2010 budget preparation process: infrastructure, basic education, health services, social welfare, agriculture and environmental protection.

2.3.3.2 The allocation of the fiscal space among departments concerned as recommended by the DBCC and as approved by the President shall be duly communicated. A separate issuance shall provide the details and other requirements relative to new spending proposals.

2.4 OPIF

2.4.1 The OPIF or the Performance Based Budgeting approach involves a review of the agencies existing budgetary programs and projects to ensure that these support its core mandated functions. It shall be used as a tool in the evaluation of budgetary proposals for FY 2010.

2.5 The 2010 budget preparation exercise shall aim for the following:

2.5.1 Ensure that the national budget is aligned with the overall development agenda, consistent with the fiscal discipline and consolidation strategy, specifically through the MTEF.

2.5.2 Enjoin agencies to focus on performance/results pursuant to their respective organizational goals, with the status of Major Final Outputs (MFOs) as the key units for determining resource allocation, and for monitoring/evaluating agency financial/physical performance using agreed upon performance indicators.

2.5.3 Improve efficiency and effectiveness in government operations by incorporating implications of the following public sector reforms on their budget proposals:

2.5.3.1 The Rationalization Program under Executive Order No. 366, relative to the review of agency operations.

2.5.3.2 Cost recovery measures, to assist in the revenue enhancement efforts and improve service delivery.

2.5.3.3 Mandatory use of the Philippine Government Electronic Procurement System (PhilGEPS), for transparency and efficiency purposes.

2.5.3.4 Disclosure on contingent liabilities with high probability of becoming real, stating the risks.

3.0 MACROECONOMIC AND FISCAL TARGETS

The 2010 fiscal stance addresses the challenge of keeping the momentum of the economy growing amidst the uncertainty resulting from the ongoing global financial crisis. The provision of appropriate policy responses starting this year to the decline of exports and OFW remittances as well as the more aggressive implementation of key reforms to strengthen competitiveness will ensure the economy's sustained resilience over the short and medium terms. Crucial is the provision of strong regulatory environment and more effective governance, particularly transparency and the rule of law.

3.1 Microeconomic Assumptions

For the period 2009-2012, the budget aggregates are based on the following macroeconomic assumptions, which already take into account the latest available information on international and domestic developments as of April 16, 2009.

Particulars	2008 Actual	2009*	2010*	2011*	2012*
GNP Real Growth (%)	6.1	2.8-3.8	4.4-5.4	6.4-7.3	7.5-8.3
GDP Real Growth (%)	4.6	3.1-4.1	4.3-5.3	5.5-6.4	5.9-6.8
Inflation Forecast (%)	9.3	2.5-4.5	3.5-5.5	3.0-5.0	3.0-5.0
91-Day T-bill rate (%)	5.4	5.0-7.0	5.0-7.0	4.5-6.5	4.5-6.5
FOREX (P/US$)	44.47	46-49	46-49	46-49	46-49

*Approved by the Development Budget Coordination Committee on April 16, 2009
Sources: BSP, NEDA, NSCB

3.1.1 In 2009, OFW remittances are expected to remain stable together with slower growth in all production sectors resulting from the contraction of global trade. A gradual recovery is seen starting 2010 as the global economy recuperates from the negative impact of the financial crisis and the lingering effects of the surge in oil and food prices. Close monitoring of the developments will need to be done for a better reading of the strength of the recovery.

3.1.1.1 The domestic economy is projected to grow between 4.3 and 5.3 percent in 2010. The gross national product, after 2009 expectations of posting lower real growth vis-à-vis the gross domestic product (mainly due to lackluster growth in OFW remittances), will likely surge back in 2010, due to the projected global economic rebound.

3.1.1.2 Growth in agriculture will be buoyed by the government's continued strong support for agriculture, not only in providing more funds but also by reforming policies to ensure that resources are used efficiently and effectively. Value added in the agriculture sector is projected to grow between 3.4-4.4 percent in 2010 from 3.0 to 3.6 percent in 2009, as the sector's growth is expected to be fueled by intensified government support towards irrigation, farm-to-market roads, and post-harvest facilities.

3.1.1.3 In 2010, industry is projected to grow between 4.1-5.1 percent faster than the 2.8-4.3 in 2009, spurred by higher growth in manufacturing, the continued boom in construction, with private sector as lead in the latter part, and the recovery of mining and quarrying. The expected improvement in the global economy together with the improvement in the financial sector, and the resulting pick-up in international trade are seen to stimulate external demand, ease financing, and invigorate domestic production.

3.1.1.4 The services sector is projected to grow between 4.8-5.7 percent in 2010 with the improvement in OFW remittances and as the global economy recovers. Transportation, communications and storage is expected to benefit from the pick-up in international trade. Growth in private services will be sustained by the expected faster growth in off-shoring and outsourcing.

3.1.2 For 2011 and 2012, the economy is projected to grow in real terms by 5.5-6.4 percent and 5.9-6.8 percent respectively. These projections assume the continuous global economic recovery and a realization of gains from the implementation of reforms that improve the country's competitiveness.

3.1.3 From 9.3 percent in 2008, inflation is expected to fall to 2.5-4.5 percent in 2009, inch up to 3.5-5.5 percent in 2010 before tapering down to the 3.0-5.0 percent range from 2011 to 2012. This inflation outlook is supported by a downward sift of risks following the declines in commodity prices, the fallback in inflation expectations, the slowdown in economic activity in the near term, the supply responses to earlier large hikes in commodity prices, and the consequent recovery in the world economy over time. With commodity prices stabilizing, cost and wage pressures should moderate, reducing the risks of second-round effects. For programming purposes, the midpoint of the forecast inflation rate shall be used.

3.1.4 The assumed 91-day T-bill rate considered the interest rates in both the primary and secondary markets. The range in the forecasts took into account the movements of the rates since 2000. The real interest rate is expected to turn positive starting in 2009 as inflation is expected to decelerate significantly. For programming purposes, the high-end of the forecast interest rate range is used for expenditure projections while revenue projections are based on the low end.

3.1.5 The exchange rate is expected to be generally stable in the medium term at around P46-P49, supported by modest demand for foreign exchange in 2009 as global economic slowdown puts more emphasis on domestic sources of capital and lowers import requirements. It also considers the improved level of reserves, and a rebound in exports over the longer horizon. The foreign exchange rate assumptions are based on the Purchasing Power Parity (PPP) and

Interest Rate Parity (IRP) concept. For programming purposes, the forecast exchange rate range is used, similar to that for interest rate.

3.2 Fiscal Aggregates

Consistent with the government's fiscal consolidation strategy and the aforesaid macroeconomic prospects, the budget deficit is targeted to contract to P173.3 billion or 2.0 percent of GDP, is contracting from the 2009 revised target of P199.2 billion or 2.5 percent of GDP. Due to the prolonged and deeper impact of the global financial crisis, the planned balancing of the budget has been deferred, to allow the appropriate magnitude of budgetary response to the economic slowdown, with disbursements projected to outpace revenues. While being aggressive, the fiscal stance remains prudent, in that the national government's outstanding debt-to-GDP ratio for 2010 of 53.4 percent still reflects a contraction from 55.7 percent in 2009, still consistent with the fiscal consolidation strategy embodied in the Medium Term Philippine Development Plan (MTPDP) for 2004-2010.

PARTICULARS	2008 Actual	2009 Revised Program	2010 Proposed
Levels In Billion Pesos			
Revenues	1,202.9	1,295.8	1,403.1
Disbursements	1,271.0	1,495.0	1,576.4
Surplus/(Deficit)	(68.1)	(199.2)	(173.3)
Percent of GDP			
Revenues	16.0	16.3	16.2
Disbursements	17.0	18.8	18.2
Surplus/(Deficit)	(1.0)	(2.5)	(2.0)
Growth Rate (%)			
Revenues	5.8	7.7	8.3
Disbursements	10.6	17.6	5.4
Surplus/(Deficit)	447.5	192.4	(13.0)
GDP (in billion pesos)	7,498.0	7,968.0	8,665.0
Deficit Financing Mix (%)			
Foreign	14.0	25.0	23.0
Domestic	86.0	75.0	77.0
Debt-to GDP Ratio (%)	56.3	55.7	53.4

Sources: DOF, DBM

3.2.1 This fiscal position allows for an obligation budget ceiling of P1.555 trillion, expanding by P128.9 billion or 9.0 percent over the 2009 programmed level of P1.426 trillion, which is inclusive of the supplemental budget for the 2010 national and local elections.

4.0 POLICY GUIDELINES

In accordance with the budget framework and expenditure reforms contained in the preceding sections, GOCCs/GFIs shall follow the budget formulation guidelines prescribed below:

4.1 Performance-Based Budgeting

4.1.1 GOCC/GFI budgets shall be formulated to ensure attainment of its mandate. Moreover, the targeted major final outputs and outcomes of programs and projects should be clearly specified, measurable and reflective of the levels of performance which the GOCC/GFI head commits to achieve thru the efficient and effective use of corporate resources.

4.2. Total Resource Budgeting

4.2.1 GOCCs/GFIs shall fully reflect in the budget proposal all sources of funds such as corporate funds, borrowings, and budgetary support from the national government.

4.2.2 All funding requirements of the GOCCs/GFIs including contingent liabilities arising from BOT projects and similar sizeable liabilities due from previous years' suppliers contracts and other multi-year obligations or multi-year agency projects must be identified in the budget submissions.

4.2.3 GOCCs/GFIs should also consider in their investment decisions all available resources within a specific area or locality, to the extent feasible. Hence, programs to be undertaken shall be consistent with the development plan of said area such that the resources from all stakeholders, namely: national agencies, local governments, congressional allocations and private initiatives will complement each other.

4.2.3.1 In the allocation of their budget, GOCCs/GFIs shall undertake consultation with their major stakeholders to ensure that their concerns and priorities are addressed in their budget proposals.

4.3 Financial independence of GOCCs/GFIs

4.3.1 Measures to enhance corporate revenue generation and improve operational efficiency, including privatization of certain GOCC operations and assets, should be undertaken. GOCCs/GFIs are encouraged to supplement available resources through other means, such as external financing, BOT schemes and variant arrangements, sale/lease of assets, etc. before requesting budgetary support from the national government.

4.4 Alignment of corporate programs to government priorities:

4.4.1 GOCCs/GFIs shall implement their core mandates towards the attainment of the Ten-Point Agenda of the Administration, key programs stated in various addresses on the State of the Nation and the Millennium Development Goals. Budgetary support to GOCCs/GFIs shall be channeled to strategic on going programs and completing projects aim to enhance productivity and social equity in the country.

4.5 Resource Optimization

GOCCs/GFIs are encouraged to maximize their budget and undertake innovative ways to enhance their revenue possibilities through the following:

4.5.1 Cost Recovery Measures and Revenue Generation/ Enhancement

4.5.1.1 GOCCs/GFIs should strive to fully recover the cost of services being rendered by them thru users fees.

4.5.1.2 GOCCs/GFIs are encouraged to identify/ implement programs with the potential to generate revenues. In cases where revenues are already being generated for services rendered, measures such as the improvement of the quality of service delivery and reduction in the cost of production should be adopted to further increase revenues.

4.5.2 Focused Resource Utilization

4.5.2.1 GOCCs/GFIs shall refrain from undertaking activities and programs which other national government agencies, LGUs or other government corporations are mandated by law to perform. Complementation in the identification and implementation of the programs and projects among said agencies shall be observed to avoid duplication, maximize benefits and promote greater efficiency in service delivery.

4.5.2.2 A strategic review of GOCCs/GFIs operations shall be undertaken to rationalize and accommodate the requirements of new loan or grant assisted projects within the GOCCs/GFIs budget. This review should include, as part of the objective, the use of organic structures and staff within the

GOCCs/GFIs and the use of corporate funds as GOP counterpart for foreign assisted projects.

4.5.2.3 The Rationalization Plan formulated and approved under EO 366 shall provide the overall framework for a more focused utilization of resources vis-à-vis the core mandate of the corporation.

4.6 Gender and Development (GAD)

4.6.1 A GAD Plan shall be formulated outlining how GOCCs/GFIs intend to include the priorities set in the Framework Plan for Women. GAD issues and concerns shall be considered in preparing the budget of the GOCCs/GFIs consistent with the provisions of DBM, NEDA and NCRFW Joint Circular No. 2004-1.

5.0 SUBMISSION REQUIREMENTS AND TIMETABLE

5.1 All the budget forms prescribed under Annex A shall be accomplished by all GOCCs/GFIs, in accordance with the general guidelines above mentioned and specific guidelines indicated in each form.

5.2 Energy corporations whose budgets are required to be submitted to Congress under R.A. No. 7638 (An Act Creating The Department Of Energy, Rationalizing The Organization And Functions Of Government Agencies Related To Energy, And For Other Purposes) shall likewise use the herein prescribed forms in submitting their operating budgets as part of the FY 2010 National Expenditure Program.

5.3 The FY 2010 portion/column of the budget submissions under this Budget Memorandum shall already be considered as the COB proposal of the GOCC/GFI which shall observe the guidelines prescribed under Corporate Budget Circular No. 20 dated April 27, 2005 for this purpose.

5.4 Amounts indicated in the FY 2008 column of the prescribed Forms should be consistent with the Annual COA Audited Financial Statements of the same year.

5.5 GOCCs/GFIs budget estimates shall include the following:

a) Approval of the Governing Board through a duly certified Board Resolution;

b) Letter of endorsement of the head of GOCC/GFI;

c) Five (5) complete sets of properly accomplished Budget Forms; and,

d) Five (5) copies each of the FY 2007 and FY 2008 Accomplishment/ Annual Reports.

5.6 The budget estimates shall be submitted to the Budget and Management Bureau – D, Ground Floor, DBM Arcache Building, corner General Solano and J. Nepomuceno Streets, San Miguel, Manila on or before May 29, 2009.

6.0 BUDGET PREPARATION CALENDAR

GOCCs/GFIs are enjoined to adhere to the budget preparation calendar contained in Annex B.

ROLANDO G. ANDAYA, JR.
Secretary

May 08, 2009