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

NATIONAL BUDGET MEMORANDUM No. 103

F O R : All Heads of Departments, Agencies, Bureaus, Offices, Commissions, State Universities and Colleges, other Instrumentalities of the National Government and all Others Concerned

SUBJECT : POLICY GUIDELINES AND PROCEDURES IN THE PREPARATION OF THE FY 2010 BUDGET PROPOSALS

1.0 PURPOSE

1.1 To provide the overall macroeconomic and fiscal policy framework and thrusts for FY 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 of the FY 2010 agency budget consistent with the Medium-Term Expenditure Framework (MTEF) and the Organizational Performance Indicator Framework (OPIF), and;

1.3 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 MTEF and the 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 FY 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 concerned departments/agencies. The updating considered changes in policy (e.g. per 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.

2.4.2 All Departments including their attached agencies/ bureaus as well as the Other Executive Offices (OEOs) which have constructed their OPIF logframes and have identified the applicable and appropriate output/indicators to measure agency performance shall adopt the OPIF in the FY 2010 budget preparation.

2.4.3 Departments/agencies/OEOs shall ensure the alignment of their programs, projects and activities with their MFOs. Provisions for unlinked or non-strategic/low priority activities funded within FEs may be reallocated, to enhance core mandates as agencies continuously strive to achieve greater efficiency and value for money in spending government resources.

2.5 Thus, the FY 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.

3.0 MACROECONOMIC AND FISCAL TARGETS

The FY 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 Macroeconomic 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 percent 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 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 shift 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 the 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 range 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 P46.00 – P49.00, 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 Aggregate*s

Consistent with the government's fiscal consolidation strategy and the aforesaid macroeconomic prospects, the budget deficit is targeted to contract to P173.3 billion deficit 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 FYs 2004 – 2010.

PARTICULARS	2008 Actual	2009 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 billiion 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 GUIDE TO DEPARTMENT/AGENCY BUDGET FORMULATION AND RESOURCE ALLOCATION

In accordance with the budget framework and expenditure reforms contained in the preceding sections, agencies shall follow the guidelines below to ensure the improved allocation of funds among competing sectors:

4.1 Forward Estimates

4.1.1 The forward estimates (FEs) i.e., the future costs of existing programs for the MTEF period (2009-2011) formulated last year will be updated to consider policy changes under the FY 2009 General Appropriations Act (GAA), among others, and changes if any, in certain macroeconomic assumptions e.g., inflation rate.

4.2 Output -Based Budgeting/OPIF

4.2.1 OPIF logframes show the relationships and the alignments of P/A/Ps with identified outputs and outcomes at the organizational, sectoral and societal levels. The budget proposals of the OPIF-ready departments/agencies/OEOs shall be configured by MFOs using MFO Budget Matrix (Form A). Performance targets for the MFOs shall be set using the Agency Performance Measures (Form B).

4.2.2 The MFOs are defined as the goods and services that a department or agency is mandated to deliver to external clients through the implementation of programs, activities and projects.

4.2.3 Agency P/A/Ps shall be attributed to appropriate MFOs. The P/A/P attribution process shall test the contribution/appropriateness of the P/A/P in the attainment and delivery of the MFOs.

4.2.3.1 P/A/Ps or its component activities that are neither attributable nor linked to any MFO shall be identified and indicated.

4.2.3.2 P/A/P attribution to the MFOs shall cover General Administration and Support Services, Support to Operations and Operations cost structure categories in the GAA. The method used for the attribution shall be attached to Form A.

4.2.3.3 Unlinked P/A/Ps and/or non-strategic/low priority component activities shall be identified and corresponding savings may be reallocated to on-going policies supporting core mandates.

4.2.3.4 Pending the approval of the agency Rationalization Plans (RPs), the P/A/P structure of the agency shall be on status quo. Any change in the P/A/P structure shall be addressed during budget execution either in the FY 2009 or 2010 budgets, whichever is appropriate.

4.2.4 OPIF–Based Performance Indicators/Targets

4.2.4.1 Appropriate key performance indicators/targets shall be identified per MFO. There could be several indicators/targets as the agency may find necessary to monitor and use. However, for focus and manageability, agencies are advised to present three (3) key indicators per MFO.

4.2.4.2 Performance Indicators (PIs), defined under NBC No. 501 (s. 2005) as performance measures to be used for the assessment of the delivery of MFOs contributing to organizational outcomes, can be expressed in either quantitative or qualitative terms:

a. Quantity Indicators - are measures of the volume of outputs. These indicators shall be well-selected and limited to those that best reflect the workload involved as well as the inputs required to deliver the MFOs.

b. Quality Indicators - are measures of "how well" an MFO is delivered. These may include measures of timeliness, cost-efficiency, accuracy, completeness, accessibility, compliance with standards or satisfaction of client needs.

4.2.4.3 Performance targets (PTs) are the achievable levels of accomplishment (quantitative and qualitative) pertaining to an agency's MFO - PI consistent with its budget allocation within a one-year period. It is generally expected that PTs will rise with an increase in budget.

4.3 Total Resource Budgeting

4.3.1 Trust Funds, Revolving Funds and Special Accounts in the General Fund earmarked to support identified P/A/Ps as provided for under specific provisions of law, shall be fully reflected in the budget proposal. In relation thereto, all other proposed sources of funds, including use of income and all other cash collections should be identified.

4.3.2 Activities which are not funded out of the regular budget of the agency but have the probability of becoming real liabilities such as contingent liabilities arising from BOT projects and other multi-year obligations or multi-agency projects must be identified through a footnote in the agency budget proposal (BP 201 Forms).

4.3.3 Complementation in the identification and implementation of programs and projects among NGAs and LGUs shall be observed to avoid duplication, maximize benefits and promote greater efficiency in service delivery particularly for programs and projects that have been devolved to LGUs under the Local Government Code.

4.3.3.1 As part of the planning phase, the Agency Central Offices (ACOs) shall inform the Agency Regional Offices (AROs) of their program thrust, focus of agency budget and indicative distribution of the lump-sum funds. The AROs, on the other hand, shall formulate programs/activities/projects accordingly for submission to ACOs. The RDCs shall coordinate the conduct of consultations with AROs, SUCs and LGUs for the purpose of reconciling and confirming program thrusts and priorities of the national agencies in the region and to ensure they complement with programs and projects of the local government units.

4.3.3.2 ACOs, through the AROs, are enjoined to provide RDCs and DBM ROs with feedback information on RDC-endorsed programs/projects including regionally defined projects funded from nationwide lump-sums which they have included in their consolidated budget proposal to DBM. They shall also inform the pertinent RDC of the programs/projects which are finally submitted for congressional approval.

4.4 Department Ceilings for FY 2010

4.4.1 The indicative budget ceiling of each Department or Other Executive Office (OEO) for FY 2010 shall correspond to their Forward Estimates which shall be issued separately.

4.4.2 Consistent with the performance-based budgeting approach, the indicative budget ceiling **may** be adjusted based on demonstrated absorptive capacity in relation to the agency MFOs.

4.4.3 In the preparation of their budget proposals in FY 2010, agencies are reminded to relate their proposed financial allocation with the targeted output/indicator. Effort shall be made to compare the budgetary allocation and targeted output/indicator with the past years' performance to avoid fluctuating targets, as well as inconsistent cost estimates for the same targets on a year-to-year basis.

4.4.4 If agencies fail to support their proposed financial allocation with the targeted output/indicator, the budget level shall thus be limited to the FY 2008 actual expenditure level, net of non-recurring expenditure items. This budget level may also be adjusted on the basis of sectoral priorities as finally determined by the President and the Cabinet.

4.4.5 Department heads shall have final discretion over the reallocation of the ceiling among its bureaus, regional offices and attached agencies, including component programs and projects.

4.5 Gender and Development (GAD)

4.5.1. A GAD Plan shall be formulated outlining how agencies 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 agency consistent with the provisions of DBM, NEDA and NCRFW Joint Circular No. 2004-1.

4.6. The specific costing guidelines in the preparation of the FY 2010 Agency budget proposals are contained in **Annex A** of this Memorandum.

5.0 SUBMISSION REQUIREMENTS AND TIMETABLE

5.1 The FY 2010 budget presentation shall adopt the MTEF and OPIF frameworks. Agencies shall accomplish OPIF Forms A and B following the guidelines in Section 4.3 of this Memorandum.

5.2 In accordance with National Budget Memorandum (NBM) No. 102 dated April 14, 2009, the deadline for the submission of the required BP Forms corresponding to FY 2008 Actual Obligations and FY 2009 Current Year's Budget level has already been specified. It must be emphasized that the timely submission of these required documents is necessary since these data shall serve as a substantive input on the analysis of the FY 2010 budget levels of the agencies.

5.3 Agencies shall accomplish the pertinent Budget Preparation (BP) forms in accordance with expenditure and income accounts under the New Government Accounting System (NGAS) prescribed under COA Circular No. 2003-001 dated June 17, 2003.

5.4 The Department Secretary/Head of the OEO shall ensure that the proposals submitted by their respective bureaus, offices and attached agencies are in accordance with the guidelines and submission schedule in this Memorandum.

5.5 The budget proposals must be duly endorsed by the Department Secretary/OEO Head and shall highlight the agency thrust and the major programs and projects.

5.6 In addition, the budget proposals of agencies involving specific concerns shall require the endorsement of the following:

Endorsing Agency	Subject of Endorsement
CHED	SUCs Budget
TESDA	Technical education and skills development programs
DA	Research and Development (R&D) in Agriculture and Fisheries
DOST	R&D in natural resources, environment, technological and engineering sciences
NSCB	Systems of Designated Statistics pursuant to EO 352
OP-CICT	Information Systems Plan in support of IT-related proposals.
NCRFW	GAD Plan

5.7 Agency budget proposals shall include the following:

5.7.1 Five (5) complete sets of properly accomplished Budget Preparation (BP) Forms prescribed in Annex B and Forms A and B. (For agencies which are not yet OPIF-ready, their proposals shall basically consist of required budget preparation forms. However, they may also submit Forms A and B);

5.7.2 Inventory of equipment required under NBC Nos. 438, 446 and 446-A; and,

5.7.3 Five (5) copies each of the agency's FY 2007 and FY 2008 Accomplishment Reports.

5.8 The deadline for the submission of the required BP Forms under Annex B and Forms A and B for FY 2010 budget proposals shall be on May 29, 2009.

5.9 Submission by all national government agencies shall be to the Budget Technical Service (BTS), 2nd Floor, DBM Building III, General Solano St., San Miguel, Manila. SUCs shall submit these aforecited forms to the DBM-RO concerned.

6.0 BUDGET PREPARATION CALENDAR

Agencies are enjoined to adhere to the budget preparation calendar as contained in Annex C.

ROLANDO G. ANDAYA, JR.
Secretary

May 8, 2009