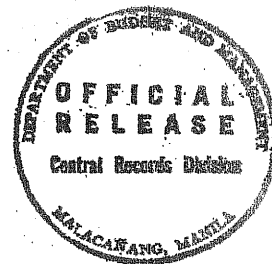




REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
MALACAÑANG, MANILA



NATIONAL BUDGET MEMORANDUM

No. 116
February 15, 2013

FOR : All Heads of Departments, Agencies, Bureaus, Offices, Commissions, State Universities and Colleges, Other Instrumentalities of the National Government and all Others Concerned

SUBJECT : ISSUANCE OF MACROECONOMIC ASSUMPTIONS, FISCAL TARGETS AND DEPARTMENT BUDGET CEILINGS FOR FY 2014, AND PRESCRIPTION OF REVISED BP FORMS AND AMENDMENT TO ITEM 4.4.6 OF NBM NO. 115 DATED 28 DECEMBER 2012

1.0 PURPOSE

- 1.1 To provide the macroeconomic assumptions, the fiscal targets and the indicative budget ceiling of each Department, Other Executive Office (OEO) and Constitutional Office for FY 2014 as mentioned under National Budget Memorandum No. 115 dated December 28, 2012 (the FY 2014 National Budget Call).
- 1.2 To prescribe the revised BP forms and to amend Item 4.4.6 of NBM No. 115.

2.0 MACROECONOMIC ASSUMPTIONS

- 2.1 For FY 2014, the fiscal and budget aggregates shall be based on the following macroeconomic assumptions:

Macroeconomic Assumptions 2012-2014

Parameter	2012 Actual	2013	2014
Real GNI Growth (%)	5.8	5.5-6.5	5.8-6.8
Real GDP Growth (%)	6.6	6.0-7.0	6.5-7.5
Inflation Rate (%)	3.2	3.0-5.0	3.0-5.0
364-Day T-bill Rate (%)	2.0	2.0-4.0	2.0-4.0
FOREX (P/US\$)	42.2	42-45	42-45

Sources: BSP, NEDA, NSCB

2.2 The growth in the domestic economy as adjusted for inflation is projected to be at 6.0-7.0 percent in 2013 and 6.5-7.5 percent in 2014.

- The growth in agriculture over the medium-term is expected to be boosted by the implementation of the Food Staples Sufficiency Program (FSSP). Livestock and poultry expansions will be supported by the infrastructure support system, promotion of feed substitutes and expansion of export opportunities. Consequently, the sector is expected to grow by 3.3-4.3 percent in 2014.
- Industry is projected to grow between 7.4-8.6 percent in 2014, stronger than the 6.6-7.6 percent projection in 2013. This year, the industry sector will provide a major contribution to growth given the good prospect for the manufacturing, construction and mining subsectors and the focus of government on employment generation.
- The services sector is projected to grow between 6.5-7.4 percent in 2014 from the 6.3-7.3 percent expected growth rate in 2013. The transportation sector is expected to remain healthy due to the increase in the number of tourists and the greater inter-connectivity of regions. Real estate, renting and business activities are also expected to continue to post a vibrant performance, driven by the demand from overseas Filipinos and the business process outsourcing industry.

2.3 In the absence of inflationary shocks going forward, inflation is expected to settle within the 3.0-5.0 percent target range for 2013 to 2014. An assessment of recent economic and financial developments on the global and domestic fronts suggests that the risks to inflation are broadly balanced. Downside risks to the inflation outlook continue to persist owing to lingering concerns over the strength of the global economy and its implication on the pace of economic activity as well as commodity prices, particularly oil.

2.4 For the period of 2013-2014, the forecast range for the one year debt paper is 2.0-4.0 percent. Interest rates will continue to be influenced by developments in the fiscal position of the National Government (NG), the BSP's policy stance as well as the availability of ample liquidity.

2.5 The peso-dollar exchange rate is expected to be broadly stable at around P42-45/US\$1 over the near term, supported by the resilience of the domestic economy. The positive outlook for the

domestic economy as well as continued structural reforms could direct more capital inflows to the country, which along with the steady stream of remittances, could drive further the appreciation of the peso. The key downside risks to the peso-dollar exchange rate relate to the dollar outflows due to anticipated stronger imports growth as the domestic economy expands.

3.0 FISCAL TARGETS

- 3.1 In view of the recent updates on the macroeconomic outlook, as well as external factors steering the global economy, the government remains confident of achieving the fiscal commitment set in the Philippine Development Plan for 2011-2016: to trim the budget deficit down to a manageable level of 2.0 percent of GDP during the 2013 to 2016 period. Hence, in 2014, the government projects a budget deficit of P266.2 billion, equivalent to 2.0 percent of GDP, increasing in nominal terms by 11.9 percent from this year's projected deficit of P238.0 billion, also at 2.0 percent of GDP.

PARTICULARS	2012 Preliminary Actual	2013 Revised Program	2014 Proposed
Levels in Billion Pesos			
Revenues	1,518.4	1,745.9	2,025.1
Disbursements	1,753.7	1,983.9	2,291.4
Surplus/(Deficit)	(235.3)	(238.0)	(266.2)
Obligation Budget	1,816.0	2,005.9	2,268.0
Percent of GDP			
Revenues	14.2	14.7	15.2
Disbursements	16.4	16.7	17.2
Surplus/(Deficit)	(2.2)	(2.0)	(2.0)
Obligation Budget	17.0	16.9	17.0
Growth Rate			
Revenues	11.7	15.0	16.0
Disbursements	12.6	13.1	15.5
Surplus/(Deficit) *	(19.0)	(1.1)	(11.9)
Obligation Budget	14.9	10.5	13.1
GDP (DBCC-Approved as of Feb. 15, 2013)	10,673.9	11,899.3	13,307.3
Gross Financing Mix (%)			
Foreign	14.0**	14.0	19.0
Domestic	86.0**	86.0	81.0
Debt-to-GDP Ratio (%)	50.2***	48.0	46.2
Notes:			
* A positive growth rate indicates an improvement in the fiscal balance.			
** Actual as of November 2012			
*** Actual as of October 2012			

Sources: DBM, DOF and NEDA

- 3.2 Given the medium-term macroeconomic indications and intensified tax collection efforts, the government projects to raise revenue collections to P2,025.1 billion in 2014, 16.0 percent or P279.2

billion more than the revised program in 2013. This represents a 15.2 percent revenue effort compared to this year's 14.7 percent. The increase will be strongly buoyed by the expected increase in BIR tax effort by 0.4 percentage point from 10.5 percent to 10.9 percent, to include the estimated incremental revenues in the amount of P42.9 billion from the proceeds of the sin tax reform law.

- 3.3 The revenue effort of 15.2 percent in 2014 and the approved deficit limit of 2.0 percent of GDP will enable disbursements of 17.2 percent of GDP or P2,291.4 billion in absolute terms. This is a considerable expansion of 15.5 percent or P307.5 billion from the 2013 outlook, to enable increased investments in infrastructure, in good governance and anti-corruption, in building human capabilities especially of the poor, through quality education, public healthcare and housing and in climate change adaptation measures – all fundamental requirements for the country's competitiveness and development. The more specific Budget Framework for FY 2014 will be issued after the Cabinet workshop for the purpose.
- 3.4 Despite the increasing nominal levels of the budget gap from about P197.8 billion in 2011, P235.3 billion in 2012, and P238.0 billion in 2013, to the proposed P266.2 billion next year, the national government debt burden as a percentage of GDP is expected to contract gradually by an average of 1.2 percentage points annually from 50.9 percent actual level in 2011 to the projected outstanding debt-to-GDP ratio in 2014 of 46.2 percent.
- 3.5 The fiscal position for FY 2014 translates to an obligation budget ceiling of P2,268.0 billion, up by P262.1 billion or 13.1 percent more than the 2013 budget level of P2,005.9 billion.

4.0 DEPARTMENT BUDGET CEILINGS

- 4.1 The indicative budget ceiling for each department/agency for FY 2014, as shown in Annex A, corresponds to the updated Forward Estimates.
- 4.2 The ceiling already includes the full-year requirement for the salary/base pay adjustments and other related compensation and fixed expenditures adjustments corresponding to the full implementation of Salary Standardization Law (SSL III).
- 4.3 The requirements for creation of new positions and filling up of unfilled positions of agencies, pension, and programs/projects under the Bottom-up-Budgeting, although not included in the

ceilings, should be included in the respective budget proposals of agencies.

5.0 GUIDELINES

5.1 To maximize the expenditure ceilings provided, departments/agencies are reminded to consider the following guidelines in formulating their respective FY 2014 Budget:

- Focus on the five Key Result Areas (KRAs) of the President's Social Contract with the Filipino People as laid out in Executive Order No. 43, s. 2011, and as envisioned in the Philippine Development Plan 2011-2016. As well as, support for the priority concerns for FYs 2014 to 2016, as follows: 1) sustaining the growth momentum through infrastructure development and conducive business environment; 2) sharing the benefits of growth with the implementation of various programs on social services such as health, education, among others; 3) managing disaster risk via climate change adaptation and mitigation measures; and 4) institutionalizing governance and anti-corruption strategies;
- Disaggregate all remaining lump-sum funds in the agency budget into specific programs and projects in the different focus geographic locations (by region, province, and municipality) by inputting the results of the consultations with Regional Development Councils (RDCs), Civil Society Organizations (CSOs), and target poor municipalities and other stakeholders;
- Ensure convergence and complementation between national and LGU programs and projects within the region;
- Involve the Civil Society Organizations (CSOs) and private sector groups and other stakeholders through consultations on plans and strategies and solicitation of feedback on the effectiveness and efficiency of existing programs and projects;
- Ensure the consistency of the proposed financial allocation with the targeted outputs and commitments for the year;
- No reallocation of the Personal Services (PS) ceiling indicated for each department to other expenditure items;

- Full provision for the mandatory expenditure items, like rents, utilities and other similar expenses, within the budget allocated for each bureau/attached agency;
- Pursuant to Administrative Order No. 16 dated July 5, 2011, all budget proposals of agencies involving the procurement of data from airborne and spaceborne platforms and other related products and services for mapping purposes shall require the endorsement of the National Mapping and Resource Information Authority.

6.0 BUDGET LEVEL ADJUSTMENT

The indicative ceilings may be adjusted based on the national and sectoral priorities as finally determined by the President and the Cabinet for the second three years of the Aquino Administration, cognizant of the demonstrated absorptive capacity of the agencies in 2012 and the first quarter of 2013, and measures done to improve the fund utilization of the agency.

7.0 REVISED BUDGET PREPARATION FORMS AND AMENDMENT TO ITEM 4.4.6 OF NBM No. 115 DATED DECEMBER 28, 2012

- 7.1 Per NBM No. 115 dated December 28, 2012, (re Policy Guidelines and Procedures in the Preparation of the FY 2014 Budget Proposals), **BP Form 201** is prescribed to reflect the FY 2014 budget proposal, i.e., obligations under the Program/Activities/Projects (P/A/P) of agencies.
- 7.2 In line with the implementation of the Unified Accounts Code Structure starting 2014, said BP form including its pertinent schedules (as enumerated below) are accordingly modified to reflect the Major Final Outputs (MFOs) of agencies. This will ensure that P/A/Ps under "Operations" are directly linked to the appropriate MFOs. The revised BP forms and instruction to accomplish the form are attached as Annexes B and C, respectively.
 - BP Form 201
Summary of Obligations and Proposed Programs/Projects
 - BP Form 201 – Schedule A
Obligations for PS
 - BP Form 201 – Schedule B
Obligations for MOOE
 - BP Form 201 – Schedule C
Obligations for CO

- 7.3 To clarify the documentary requirements of the MITHI approved projects set forth in Item 4.4.6 of NBM No. 115, the said provision is amended to read as follows:

Item 4.4.6

*Agencies shall include/reflect in their budget proposals only those ICT related resources, programs and projects which have been processed through the MITHI, using **BP Forms 201-D** for inter-agency or inter-operable projects by the lead agency, **BP Form 202** for locally funded ICT projects and **BP Form 203** for foreign-assisted ICT projects.*

8.0 SUBMISSION OF BUDGET PROPOSALS

The FY 2014 Budget Proposals shall be prepared in accordance with the guidelines provided under National Budget Memorandum No. 115. All agency budget proposals, including supporting forms/documents shall be submitted to this department not later than April 15, 2013. The budget level for agencies which fail to submit their budget proposals on the abovementioned deadline will be limited to their respective budget ceilings.


FLORENCIO B. ABAD
Secretary