REPUBLIC OF THE PHILIPPINES
DEPARTMENT OF BUDGET AND MANAGEMENT
GENERAL SOLANO STREET, SAN MIGUEL, MANILA

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NATIONAL BUDGET MEMORANDUM

No. 144
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For : All Heads of Departments, Agencies, Bureaus, Offices, Commissions, State Universities and Colleges, Other Instrumentalities of the National Government, and all Others Concerned

Subject : **BUDGET PRIORITIES FRAMEWORK FOR THE PREPARATION OF THE FY 2023 AGENCY BUDGET PROPOSALS UNDER TIER 2 (PART II)**

1.0 PURPOSE

This National Budget Memorandum (NBM) is issued to provide the departments and agencies with the information on the FY 2023 Cash Appropriations based on the macroeconomic assumptions and fiscal aggregates, which were approved by the Development Budget Coordination Committee (DBCC) during its 181st meeting on May 24, 2022.

2.0 MACROECONOMIC AND FISCAL ENVIRONMENT OF THE FY 2023 BUDGET

2.1 Macroeconomic Assumptions

For planning purposes, the following are the DBCC-approved medium-term macroeconomic and growth assumptions:

Table 1. Macroeconomic Assumptions, FYs 2022-2025

Parameter	YTD	Projections 1/			
		2022	2023	2024	2025
Real GDP Growth (%) 2/	8.3	7.0 – 8.0	6.0 – 7.0	6.0 – 7.0	6.0 – 7.0
Inflation (%) 3/	3.7	3.7 – 4.7	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0
Dubai Crude Oil (US$/bbl)	99.71	90 – 110	80 – 100	70 – 90	70 – 90
FOREX (P/US$)	51.79	51 – 53	50 – 53	50 – 53	50 – 53
Growth of Goods Export (%) 4/	n.a.	7.0	6.0	6.0	6.0
Growth of Goods Import (%) 4/	n.a.	15.0	6.0	8.0	8.0

1/ Projections were adopted in the 181st DBCC Meeting on May 24, 2022
2/ At constant 2018 prices
3/ Actual and YTD inflation rate using 2018-based CPI
4/ Based on the IMF's Balance of Payments and International Investment Position Manual, 6th edition (BPM6)

The Philippine economy is expected to grow by 6.9 percent in 2022, higher than the 5.7 percent growth in 2021, but 0.1 percentage point shy of the lower bound of the DBCC-approved growth band of 7.0 to 8.0 percent. It is noted that this revised growth band is lower than the previous projection of 7.0 to 9.0 percent for 2022, considering the country's exposure to external risks such as the Russia-Ukraine conflict, the recent lockdowns in China due to the coronavirus, and monetary normalization in the United States. Nevertheless, these risks are tempered by expectations of higher growth in the tourism sector as pandemic restrictions are gradually eased, as well as increased global demand for technology products and agro-based and mineral products. Consistent with this assumption, the medium-term growth targets were retained at 6.0 to 7.0 percent for 2023 and 2024 while the same targets were adopted for 2025.

Inflation is projected to settle around 4.6 percent in 2022, which is still within the revised government forecast of 3.7 to 4.7 percent for the same period in view of present domestic realities (e.g., re-imposition of quarantine measures due to resurgences of COVID-19 cases, fare hikes due to rising oil prices, and food-related risks such as higher fish prices and the continuing shortage in pork), as well as those developments on the external front (e.g., supply chain bottlenecks in global oil and non-oil commodity prices). The medium-term outlook (2022-2025) for inflation is maintained at 2.0 to 4.0 percent.

The peso-dollar exchange rate is seen to settle within 51 to 53 PHP/US$ in 2022. The medium-term outlook remains to be broadly influenced by various depreciation (e.g., U.S. policy normalization, the Russia-Ukraine conflict, and widening trade gaps) and appreciation pressures (e.g., higher foreign exchange inflows via tourism, Business Process Outsourcings, and Overseas Filipino Workers remittances, and ample foreign exchange reserves). Consistent with this set of assumptions, the lower bound of the medium-term target has been revised upward to 50 to 53 PHP/US$.

Meanwhile, the annual Dubai crude oil prices have continued to increase from the yearly average of 68.77 US$/bbl in 2021 to a year-to-date average of 99.71 US$/bbl, considering higher demand for oil amid pandemic-related uncertainties, supply disruptions due to the Russia-Ukraine conflict, and sanctions on Russian oil and gas imports. In view of global forecasts and trends in futures prices, crude oil prices are expected to be within the revised target of 90 to 110 US$/bbl in 2022, and are seen to ease within the medium-term from around 80 to 100 US$/bbl in 2023 to around 70 to 90 US$/bbl in 2024 and 2025.

For external trade, growth in goods exports posted at 12.4 percent in 2021 from the full-year contraction of 9.8 percent in 2020, while growth in goods imports posted at 31.7 percent in 2021 from the full-year contraction of 20.2 percent in 2020. For 2022, goods exports and imports are seen to grow by 7.0 percent and 15.0 percent, respectively. As mentioned, the outlook for trade in goods reflects the robust demand for technology and electronic products, as well as agro-based and mineral products, albeit tempered by downside risks such as supply disruption and the Russia-Ukraine conflict. Growth in goods exports is projected to settle at 6.0 percent from 2023 to 2025, while goods imports are seen to maintain a steady pace of 8.0 percent from 2024 to 2025.

As the economy inches closer to full recovery from the COVID-19 pandemic, and with the transition to a new Administration, the DBCC is committed to sound macroeconomic and fiscal management and shall endeavor to prioritize expenditures that will benefit the country's micro communities and advocate for and roll out sustainable and inclusive reforms for the Filipino people.

2.2 National Government Fiscal Environment, FYs 2021-2025

2.2.1 Fiscal Position, FYs 2021-2025

The Philippines is in a much better position now towards faster economic rebound from the pandemic-induced downturn in 2020, after a better-than-expected economic performance last year amid the safe and calibrated reopening of the economy and accelerated rollout of the national vaccination program. With the gradual lifting of quarantine restrictions and economic activity picking up, last year's revenues improved remarkably to P3,005.5 billion (equivalent to 15.5 percent of GDP). This was P149.6 billion or 5.2 percent higher than the collection in 2020, and likewise, exceeded the P2,881.5 billion program for 2021[1] by P124.0 billion. Tax revenues comprised 91.3 percent of the total collections for 2021, amounting to P2,742.7 billion and growing by P238.3 billion or 9.5 percent year-on-year (YoY). The increase was propelled by the collections of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) which expanded to P2,078.1 billion (up by P127.1 billion or 6.5 percent YoY) and P643.6 billion (up by P105.9 billion or 19.7 percent YoY), respectively. However, the larger tax proceeds were tempered by the P88.6 billion or 25.2 percent decline in non-tax revenues recorded at P262.5 billion. This was mainly due to lower dividends on National Government (NG) shares of stocks, interest on advances from GOCCs, and other government service income compared to the substantial NG dividend remittances in 2020 pursuant to the *Bayanihan* I.[2]

Meanwhile, disbursements rose to P4,675.6 billion or 24.1 percent of GDP as the government implemented an expansionary fiscal policy to stimulate the economy. This was P448.2 billion or 10.6 percent higher compared to the 2020 outturns, and was mainly driven by the surge in infrastructure and other capital outlays, as well as the continued implementation of COVID-19-related measures such as the rollout of the national vaccination program and equity infusion to government financial institutions (GFIs) to support their lending programs for COVID-19 hit industries. While aggregate spending fell below the full-year target of P4,737.1 billion largely due to lower-than-programmed interest payments and some delays in program implementation of line agencies, it is noteworthy that total infrastructure disbursements[3] exceeded the program by P104.5 billion and reached P1,123.6 billion (5.8 percent of GDP) on account of the looser quarantine restrictions allowing major infrastructure departments to ramp up their construction activities.

The full-year 2021 deficit was recorded at P1,670.1 billion (8.6 percent of GDP), P298.7 billion higher compared to the 2020 deficit of P1,371.4 billion (7.6 percent of GDP). This is 0.7 percentage point lower than the 9.3 percent of GDP Budget of Expenditures and Sources of Financing (BESF) program, mainly due to revenues exceeding the target for the year.

For the current year, given the emerging challenges such as the high inflation environment, global interest rate hikes, and tight economic conditions, the government will begin to gradually consolidate fiscal policy. This would lessen

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[1] Based on the program approved by the DBCC on May 18, 2021, and consistent with the FY 2022 BESF (Table A.2)

[2] Bureau of the Treasury (BTr) Press Release (March 1, 2022). Full-Year National Government Budget Deficit Rises to P1.7 Trillion in 2021. Source: https://www.treasury.gov.ph/wp-content/uploads/2022/03/COR-Press-Release-December-2021_final_ed.pdf

[3] Include estimated NG infrastructure disbursements, and infrastructure components of subsidy and equity to GOCCs and transfers to LGUs

the pressure on borrowings and debt as the government seeks to rebuild fiscal space to be more resilient against the emerging and future shocks and risks.

Revenue collections are expected to return to pre-pandemic levels and continue expanding in the succeeding years. Aided by the digitalization efforts of collecting agencies, revenues are programmed at P3,304.1 billion (15.2 percent of GDP). This will also be supported by the proceeds from Packages 1 (Tax Reform for Acceleration and Inclusion [TRAIN] Law) and 2+ (Sin Tax Reform Law) of the Comprehensive Tax Reform Program (CTRP). While revenue loss is expected from the implementation of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) and Financial Institutions Strategic Transfer (FIST) Laws[4], their high economic returns through reinvestments are crucial in the country's recovery efforts and poverty reduction initiatives.

On the other hand, programmed disbursements for this year total to P4,954.6 billion (22.8 percent of GDP). The upturn in disbursements is attributed to spending for infrastructure, health and social protection programs, and support to local government units (LGUs), specifically with the higher National Tax Allotment (NTA)[5] pursuant to the Supreme Court ruling on the *Mandanas-Garcia* case.

Consistent with the fiscal consolidation strategy discussed earlier, the NG deficit will narrow to P1,650.5 billion or 7.6 percent of GDP this year, from P1,670.1 billion (8.6 percent of GDP) in 2021.

For FY 2023, revenues are forecasted to grow by 10.0 percent to P3,632.9 billion or 15.3 percent of GDP. Disbursements, on the other hand, will increase slightly by 2.6 percent YoY to reach P5,085.8 billion. As some of the substantial COVID-19 expenditures are already completed, the NG shall hone in on high-impact priority programs, activities, and projects (PAPs), particularly education, health, and social protection systems improvement, disaster-risk management, and digital transformation consistent with the recently-adopted Ten-Point Policy Agenda on Economic Recovery[6] and the gaps/concerns identified in the 2021 Socioeconomic Report. This also includes sustaining the Build, Build, Build Program through crucial and shovel-ready infrastructure projects to generate employment and contribute to the achievement of the 6.0 to 7.0 percent GDP growth target.

The deficit outlook for 2023 is set to decline to P1,453.0 billion or 6.1 percent of GDP, and will be further reduced to P1,329.5 billion (5.1 percent of GDP) and P1,174.3 billion (4.1 percent of GDP) in 2024 and 2025, respectively. Nevertheless, the NG debt is projected to continue to hover slightly above the indicative debt threshold of 60.0 percent of GDP. The NG debt reached P11.73 trillion or 60.4 percent of GDP[7] in 2021, and stretched further to P12.68 trillion, equivalent to 63.5 percent of GDP, in the first quarter of this year. While this is significantly lower than the historic high of 71.6 percent of GDP debt ratio recorded in 2004, downside risks for recovery remain high with the ongoing pandemic and recent global developments, such as the Ukraine-Russian war. These are likely to result in a continuing uncertain macroeconomic environment,

[4] RA No. 11534 (CREATE Law) and RA No. 11523 (FIST Law) were enacted on March 26, 2021 and February 16, 2021, respectively.

[5] Formerly known as the Internal Revenue Allotment or IRA. The term "national tax allotment" is adopted in lieu of "internal revenue allotment" consistent with the *Mandanas* ruling.

[6] E.O. No. 166, s. 2022 ("Adopting the Ten-Point Policy Agenda to Accelerate and Sustain Economic Recovery from the Covid-19 Pandemic, and Directing a Whole-Of-Government Approach to Align All Economic Recovery Programs and Measures of the National Government") was approved on March 21, 2022.

[7] Data on NG debt are available at: https://www.treasury.gov.ph/?page_id=12407

which can increase the volatility of foreign exchange and interest rates, and fan inflationary pressures. Hence, this will require the government to be more prudent in managing its fiscal position to promote long-term sustainability, and ensuring that high-impact expenditure items will be prioritized to maximize the limited public funds available.

Table 2. Fiscal Aggregates, FYs 2021-2025

Particulars	2021	2022	2023	2024	2025
	Actual	Projections [1/]			
Levels, in billion pesos					
Revenues	3,005.5	3,304.1	3,632.9	4,062.7	4,548.7
Disbursements	4,675.6	4,954.6	5,085.8	5,392.2	5,723.0
Fiscal Balance	(1,670.1)	(1,650.5)	(1,453.0)	(1,329.5)	(1,174.3)
Appropriations	4,506.0	5,023.6	5,268.0	5,559.0	5,834.9
Percent of GDP					
Revenues	15.5	15.2	15.3	15.6	16.1
Disbursements	24.1	22.8	21.3	20.8	20.2
Fiscal Balance	(8.6)	(7.6)	(6.1)	(5.1)	(4.1)
Appropriations	23.2	23.1	22.1	21.4	20.6
Growth Rate					
Revenues	5.2	9.9	10.0	11.8	12.0
Disbursements	10.6	6.0	2.6	6.0	6.1
Fiscal Balance*	(21.8)	1.2	12.0	8.5	11.7
Appropriations	9.9	11.5	4.9	5.5	5.0
GDP, in billion pesos	19,410.6	21,775.7	23,822.0	25,980.8	28,304.0

Note:
* A positive growth rate indicates an improvement in the fiscal balance, while a negative growth rate implies a deterioration in the fiscal balance.

Sources: DBM, DOF, and NEDA

[1/] Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 181st DBCC Meeting on May 24, 2022.

2.2.2 Cash-Based Budget Ceiling for FY 2023

The Cash Budgeting System (CBS) shall continue to be implemented in 2023 in accordance with Executive Order (E.O.) No. 91, s. 2019. It must be emphasized the importance of funding only PAPs which are implementation-ready and can be completed within the fiscal year, or until the allowable extended implementation period. With actual disbursements falling below the programmed amount in 2021, partly due to delays in project execution and payment, line departments, especially those seeking additional funding under the Tier 2 during the budget preparation, must demonstrate implementation capacity and shall continue with their efforts to enhance the efficiency of budget execution such as strategic and procurement planning, risks management, and cash programming.

With the fiscal consolidation strategy to be implemented by the NG and the receipt of higher NTA, LGUs have a crucial role as partners in development and as providers of devolved services. Hence, the NG agencies (NGAs) shall refrain from duplicating the delivery of functions that are assigned to LGUs, and instead shift their focus on developing service delivery standards, and capacitating local governments in areas of implementation and management of devolved functions and public financial management.

Table 3. Derivation of FY 2023 Cash-Based Budget, in billion pesos

Particulars	2022 1/	2023 1/	Increase/(Decrease)	
			Amount	Percent
Total Disbursement Program	**4,954.6**	**5,085.8**	**131.2**	**2.6%**
% of GDP	*22.8%*	*21.3%*		
Less: Prior Years' Obligations	464.0	533.0	69.0	14.9%
% of Total Disbursement Program	*9.4%*	*10.5%*		
Current Year Disbursements	**4,490.6**	**4,552.9**	**62.3**	**1.4%**
% of GDP	*20.6%*	*19.1%*		
Add: Est. obligations to be paid in the succeeding year	533.0	715.1	182.1	34.2%
Cash Appropriations	**5,023.6**	**5,268.0**	**244.4**	**4.9%**
% of GDP	*23.1%*	*22.1%*		
Nominal GDP (in billion pesos)	*21,775.7*	*23,822.0*		

1/ Projections consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 181st DBCC Meeting on May 24, 2021.

For FY 2023, the disbursement program is estimated at P5,085.8 billion, P131.2 billion or 2.6 percent higher compared to the 2022 program of P4,954.6 billion. A portion of the program, amounting to P533.0 billion, is set aside to cover the payment of prior years' obligations scheduled in FY 2023. This includes the implementation and payment of some expenditure items which were obligated during the previous years.

Hence, the cash budget for FY 2023 is set at P5,268.0 billion (22.1 percent of GDP), 4.9 percent higher than the P5,023.6 billion 2022 National Budget.

For the national government to maximize the use of limited resources and to practice prudent public financial management, the departments/agencies are hereby encouraged to reevaluate their Tier 1 proposals. Given the absence of additional fiscal space for FY 2023, these adjustments in the Tier 1 levels may provide some headroom for direly needed Tier 2 proposals for new and expanded PAPs. The Tier 1 and Tier 2 proposals shall be: a) responsive to the expenditure directions and/or key sector strategies for FY 2023 as identified in NBM No. 143; b) implementation-ready; and, c) reflective of the agency's absorptive capacity.[8] Moreover, said proposals shall also take into consideration the plans and priorities of the incoming Administration.

4.0 For immediate implementation.

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Officer-in-Charge, DBM

[8] Additional evaluation criteria are stated in the National Budget Memorandum (NBM) No. 143 - Budget Priorities Framework for the Preparation of the FY 2023 Agency Budget Proposals Under Tier 2.