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

OFFICIAL RELEASE

NATIONAL BUDGET MEMORANDUM

No. 148
Date: May 12, 2023

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 2024 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 information on the FY 2024 Cash Appropriations based on the macroeconomic assumptions and fiscal aggregates, which were approved by the Development Budget Coordination Committee (DBCC) during its 184th meeting on April 24, 2023.

2.0 MACROECONOMIC AND FISCAL ENVIRONMENT OF THE FY 2024 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 2023-2028

Parameter	Actual 2022	Projections [1/] 2023	2024	2025	2026	2027	2028
Real GDP Growth (%) [2/]	7.6	6.0 – 7.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0
Inflation (%) [3/]	5.8	5.0 – 7.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0
Dubai Crude Oil (US$/bbl)	97.05	70 – 90	70 – 90	60 – 80	60 – 80	60 – 80	60 – 80
FOREX (P/US$)	54.48	53 – 57	53 – 57	53 – 57	53 – 57	53 – 57	53 – 57
Growth of Goods Export (%) [4/]	5.9 [p]	3.0	6.0	6.0	6.0	6.0	6.0
Growth of Goods Import (%) [4/]	18.5 [p]	4.0	8.0	8.0	8.0	8.0	8.0

1/ Projections were adopted in the 184th DBCC Meeting on April 24, 2023
2/ At constant 2018 prices
3/ Actual and projections for inflation rate are using 2018-based CPI
4/ Based on the IMF's Balance of Payments and International Investment Position Manual, 6th edition (BPM6)
p - preliminary

The Philippine economy grew by 7.6 percent in 2022, notably higher than the 5.7 percent growth rate in 2021, and exceeded the DBCC-approved growth band of 6.5 to 7.5 percent. The higher-than-expected growth is primarily attributed to strong domestic demand as supported by robust household spending and investment, as well as expansions in the services and industry sectors. The country's performance reflects the uptick in economic activity in view of the full reopening of the economy in the last quarter of the year. Over the near-term, the economy is expected to continue its pace towards recovery, supported by government interventions aimed at cushioning the impacts of external risks and weather disturbances, and the adoption of forward-looking policies to improve sector competitiveness and resiliency. Over the medium-term, strategies identified in the Philippine Development Plan (PDP) 2023-2028 shall guide the National Government (NG)'s formulation and execution of programs/measures to sustain growth and attain development goals. Consistent therewith, the medium-term growth targets were set at 6.0 to 7.0 percent in 2023 and 6.5 to 8.0 percent from 2024 to 2028.

Inflation reached 5.8 percent in 2022, driven primarily by an acceleration in prices of food and non-alcoholic beverages and to some extent, by higher prices in restaurants and accommodation services. In contrast, the annual average for global inflation for the same period was estimated to be higher at 8.7 percent, indicating the far-reaching effects of the Ukraine-Russia conflict and the resurgence of COVID-19 in China. The outlook on domestic inflation remains strongly tilted to the upside for 2023 to 2024, in view of interplay in various upside factors (e.g., elevated international food prices exacerbated by high factor input prices, food supply constraints due to anticipated weather disturbances, and potential increases in wages and transport fares) and downside factors (e.g., recovery in local swine production, enforcement of non-monetary measures to fill supply constraints and address energy concerns, and moderation in global commodity prices). As such, the medium-term inflation target was revised to 5.0 to 7.0 percent in 2023 and 2.0 to 4.0 from 2024 to 2028.

The peso-dollar exchange rate increased to 54.48 PHP/US$ in 2022, following the 2021 rate of 49.25 PHP/US$, in view of aggressive policy rate hikes by the U.S. Federal Reserve (FED) as well as fluctuations in global oil prices. Over the near-term, the outlook is seen to be influenced by monetary policy easing on the part of the U.S. FED, supported by the Bangko Sentral ng Pilipinas (BSP)'s monetary policy normalization efforts, maintenance of adequate international reserves, and further improvements in domestic assumptions. Consistent therewith, the medium-term target was revised to 53 to 57 PHP/US$ from 2023 to 2028.

On the other hand, while annual Dubai crude oil prices have posted at 97.05 US$/bbl average in 2022, the year-to-date average (January 1 – April 19, 2023) declined to around 81.09 US$/bbl. The outlook on oil markets remains uncertain in the near-term, considering upward pressures due to the tighter supply caused by sanctions on Russian oil imports, which are seen to be tempered by a slowdown in global growth, and expected recovery of demand in China. However, the medium-term outlook suggests a mild tapering in global oil prices, as evidenced by latest futures prices and forecasts. As such, crude oil prices are expected to fall within the target of 70 to 90 US$/bbl from 2023 to 2024 and 60 to 80 US$/bbl from 2025 to 2028.

For external trade, preliminary growth in goods exports posted at 5.9 percent in 2022 from the 12.5 percent growth in 2021. Meanwhile, preliminary growth in goods imports posted at 18.5 percent in 2022 from the 30.5 percent growth in 2021. The trade growth projections are expected to slow down in 2023 in view of dampened global trade growth. However, in view of the gradual normalization in economic activity both globally and domestically, goods exports and imports will likely grow by 6.0 percent and 8.0 percent, respectively, over the medium-term.

Amid global and domestic headwinds, the NG reiterates its commitment to promote economic recovery and prosperity, consistent with the 8-Point Socioeconomic Agenda, the PDP 2023-2028, the Medium-Term Fiscal Framework (MTFF), and the *AmBisyon Natin 2040*. Likewise, the DBCC shall remain vigilant in its pursuit of sound macroeconomic and fiscal management and shall advocate for inclusive and sustainable reforms for the Filipino people.

2.2 National Government Fiscal Environment, FYs 2022-2028

As the COVID-19 crisis has shown, sound macroeconomic fundamentals and a solid fiscal stance will not only support robust economic growth, but will also help the country weather risks and external shocks in the future. Hence, the government's fiscal policy will be guided by the 2023-2028 MTFF. The MTFF, which was adopted by Congress under Concurrent Resolution No. 4[1] dated September 19, 2022, is designed to attain macro-fiscal stability in the short-term and promote medium-term fiscal sustainability, while at the same time, being supportive of economic recovery. In particular, its objectives include the attainment of: (i) 3.0 percent NG deficit to GDP ratio by 2028; and (ii) less than 60.0 percent NG debt-to-GDP ratio by 2025.

2.2.1 <u>FY 2022 Fiscal Outturn</u>

Despite the heightened uncertainties and risks to economic recovery in 2022, the country was able to exceed expectations and achieve a real Gross Domestic Product (GDP) growth of 7.6 percent amid the continuing efforts to fully reopen the economy and further relax mobility restrictions. This allowed revenue collections to surge to P3,545.5 billion (16.1 percent of GDP), P540.0 billion or 18.0 percent higher year-on-year (YoY) as receipts from the two main revenue collecting agencies accelerated. Of the actual total revenues, 91 percent came from tax sources, amounting to P3,220.3 billion, P477.6 billion (17.4 percent) more than the outturns in 2021. Tax receipts were mainly driven by the collections of both the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC), which increased by P257.5 billion (12.4 percent) and P218.9 billion (34.0 percent), respectively. Meanwhile, non-tax revenues contributed the remaining P325.2 billion, and were P62.4 billion or 23.7 percent higher YoY. This was in view of the stronger Bureau of the Treasury (BTr) income largely brought about by higher remittances of dividends on shares of stocks, income from Bond Sinking Fund investments, and interest on NG deposits[2]. Furthermore, actual revenues for 2022 outperformed the P3,304.1 billion program[3] by P241.4 billion or 7.3 percent, primarily due to (i) higher-than-expected BOC collections as a result of the agency's efforts to recover deficient duties, taxes, penalties, and interests, improve Customs compliance, and additional revenues from rice tariffs and public auctions of overstaying cargoes; as well as (ii) larger non-tax revenues[4].

Disbursements, on the other hand, were registered at P5,159.6 billion (23.4 percent of GDP), P484.0 billion or 10.4 percent higher than the actual spending in 2021. It surpassed the P4,954.6 billion program by P205.0 billion or 4.1 percent. Spending growth was propelled primarily by the upturn in capital

[1] Adopted by the Senate of the Philippines on September 12, 2022 and adopted by the House of Representatives as an amendment to House Concurrent Resolution No. 2 on September 14, 2022.
[2] BTr Press Release (February 28, 2023). *Full-Year NG Budget Deficit Narrows to P1.6 Trillion in 2022.* Source: https://www.treasury.gov.ph/?p=52816
[3] Based on the program approved by the DBCC on May 24, 2022, and consistent with the FY 2023 Budget of Expenditures and Sources of Financing (BESF) (Table A.2).
[4] *Ibid.*

outlays as line agencies ramped up the implementation of infrastructure projects and took advantage of the lower COVID-19 alert levels. The overall infrastructure disbursements, which account also for the infrastructure components of subsidy/equity of government corporations and transfers to local government units (LGUs), reached P1.278 trillion, equivalent to 5.8 percent of GDP. The first year of implementation of the Supreme Court (SC) ruling on the *Mandanas-Garcia* case ("*Mandanas* Ruling") also commenced last year, resulting in the higher National Tax Allotment (NTA) shares of LGUs. Moreover, disbursements were spurred by programs intended to provide support to sectors affected by the high prices of oil and commodities, such as the Fuel Subsidy Program of the Department of Transportation (DOTr) and the Targeted Cash Transfer (TCT) Program of the Department of Social Welfare and Development (DSWD); funding for the health emergency allowance (HEA) of eligible public and private health care workers, as well as the growth in personnel services (PS) expenditures largely attributed to the third tranche of the Salary Standardization Law (SSL) V.

The full-year deficit for 2022 clocked in at P1,614.1 billion or 7.3 percent of GDP, P56.0 billion or 3.4 percent narrower than the 2021 deficit of P1,670.1 billion (8.6 percent of GDP). This also compares to the full-year deficit program of 7.6 percent of GDP, signifying a slightly faster pace of fiscal consolidation owing to the better-than-expected revenue outturn and economic performance. Meanwhile, actual NG debt as of end-December 2022 was recorded at P13.419 trillion or 60.9 percent of GDP, lower than the 61.8 percent target which demonstrates the government's commitment to strengthening debt sustainability[5].

2.2.2 FY 2023 Fiscal Program

For this year, intensified resource mobilization will help push revenues to P3,729.0 billion (15.2 percent of GDP)[6]. Collecting agencies will focus on improving tax administration through digitalization and modernization to widen the tax base, simplify tax collection processes, and reduce opportunities for smuggling and corruption[7,8,9].

Disbursements, on the other hand, are programmed at P5,228.4 billion (21.3 percent of GDP) as approved by the DBCC on April 24, 2023. Spending for this year will benefit from the early approval of the budget[10], which is seen to promote faster budget utilization and timely program/project implementation. In order to support the 8-Point Socioeconomic Agenda in the near-term, budget allocation will give precedence to infrastructure development, food security, health care, education, social services, affordable and clean energy, bureaucratic efficiency, and sound fiscal management.

The deficit for 2023 is, thus, projected at P1,499.4 billion or 6.1 percent of GDP, lower than the P1,614.1 billion (7.3 percent of GDP) outturn in 2022.

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[5] BTr Press Release (January 31, 2023). *National Government Debt Recorded at P13.42 Trillion as of end-December 2022.* Source: https://www.treasury.gov.ph/?p=52191
[6] Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 184th DBCC Meeting on April 24, 2023.
[7] DOF Press Release (February 7, 2023). *BIR kicks off national tax campaign for 2023.* Source: https://www.dof.gov.ph/bir-kicks-off-national-tax-campaign-for-2023/
[8] DOF Press Release (February 7, 2023). *Bureau of Customs celebrates 121st founding anniversary.* Source: https://www.dof.gov.ph/bureau-of-customs-celebrates-121st-founding-anniversary/
[9] BOC Press Release (February 8, 2023). *PBBM conveys support for BOC, commends accomplishments.* Source: https://customs.gov.ph/pbbm-conveys-support-for-boc-commends-accomplishments/
[10] Republic Act No. 11936 ("An Act Appropriating Funds for the Operation of the Government of the Republic of the Philippines from January 1 to December 31, 2023") was approved on December 16, 2022.

2.2.3 FY 2024 Fiscal Projection

For 2024, revenues are expected to climb by 12.2 percent YoY to reach P4,184.4 billion (15.7 percent of GDP)[11]. The government will actively pursue several measures to further support revenue growth, such as the (i) Passage of the Passive Income and Financial Intermediary Taxation Bill (Package 4 of the Comprehensive Tax Reform Program); and (ii) Imposition of Value-Added Tax (VAT) on digital service providers, as well as excise taxes on single-use plastics and pre-mixed alcohol[12].

Meanwhile, disbursements for next year are set at P5,547.3 billion (20.8 percent of GDP)[13]. Given the tight fiscal space amid fiscal consolidation and competing priorities, including mandatory expenses, such as PS expenditures and the NTA of LGUs, budgetary priorities shall be strictly aligned with the MTFF and the PDP 2023-2028, with the government employing measures to improve bureaucratic efficiency and absorptive capacities of both National Government Agencies (NGAs) and LGUs. Digital transformation and the passage of key public financial management reforms, such as the Progressive Budgeting for Better and Modernized Governance (PBBM) Bill, Budget and Treasury Management System (BTMS) and the National Government Rightsizing Program (NGRP), will also play a crucial role in ensuring that public resources will be utilized effectively.

The deficit for 2024 is projected to decrease further to P1,362.9 billion, equivalent to 5.1 percent of GDP. The deficit will continue on a downward trajectory, reaching the pre-pandemic level and MTFF target of 3.0 percent of GDP by 2028. Although the debt management strategy will continue to favor domestic sources to minimize foreign exchange and interest rate risks, the government will also explore other financing opportunities, such as Environmental, Social, and Governance (ESG) under the country's Sustainable Finance Framework (SFF).

2.2.4 FYs 2025-2028 Fiscal Outlook

Notwithstanding the deficit decline in the coming years, the government will invest heavily in the country's public infrastructures through the Administration's Build Better More Program. Infrastructure investments are targeted to reach between 5.0 to 6.0 percent of GDP within the six-year plan period, and will reach P2,284.4 billion by 2028[14]. This amount is nearly twice as much as the deficit by 2028, indicating that borrowings are being maximized for expenditures which have higher multiplier effects on growth.

Although the country can bank on economic opportunities, such as (i) upbeat domestic demand, (ii) promising COVID-19 outlook with the reduced number and severity of cases, (iii) full resumption of economic activities, including face-to-face classes, (iv) revival in domestic and foreign tourism, and (v) improved economic outlook in advanced economies, particularly in China, risks remain tilted on the downside. The less sanguine economic prospects emanate mainly from weather disturbances and natural disasters, elevated inflation, geopolitical

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[11] Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 184th DBCC Meeting on April 24, 2023.

[12] 184th DBCC Meeting Joint Statement (April 24, 2023). *Review of the Medium-Term Macroeconomic Assumptions and Fiscal Program for FY 2023 to 2028.* Source: https://www.dbm.gov.ph/index.php/secretary-s-corner/press-releases/list-of-press-releases/2704-184th-dbcc-meeting-joint-statement

[13] *Ibid.*

[14] *Ibid.*

tensions, and economic scarring due to the pandemic. In order to resolve these challenges, the government is committed to strengthening the country's fiscal position, rebuilding fiscal buffers, maintaining its solid macroeconomic fundamentals, addressing effects of pandemic scarring, and sustaining last year's high economic growth path.

Table 2. Fiscal Aggregates, FYs 2022-2028

Particulars	2022	2023	2024	2025	2026	2027	2028
	Actual	Projections 1/					
Levels, in billion pesos							
Revenues	3,545.5	3,729.0	4,184.4	4,692.0	5,255.4	5,895.9	6,621.6
Disbursements	5,159.6	5,228.4	5,547.3	5,887.7	6,372.2	7,014.8	7,773.4
Fiscal Balance	(1,614.1)	(1,499.4)	(1,362.9)	(1,195.7)	(1,116.8)	(1,118.9)	(1,151.7)
Appropriations	5,023.6 3/	5,268.0	5,750.6	5,903.9	6,400.4	7,145.6	7,883.6
Percent of GDP							
Revenues	16.1	15.2	15.7	16.1	16.5	16.9	17.2
Disbursements	23.4	21.3	20.8	20.2	20.0	20.1	20.2
Fiscal Balance	(7.3)	(6.1)	(5.1)	(4.1)	(3.5)	(3.2)	(3.0)
Appropriations	22.8	21.5	21.6	20.3	20.1	20.4	20.5
Growth Rate							
Revenues	18.0	5.2	12.2	12.1	12.0	12.2	12.3
Disbursements	10.4	1.3	6.1	6.1	8.2	10.1	10.8
Fiscal Balance 2/	3.4	7.1	9.1	12.3	6.6	(0.2)	(2.9)
Appropriations	11.5	4.9	9.2	2.7	8.4	11.6	10.3
GDP, in billion pesos	22,024.5	24,522.1	26,628.0	29,146.6	31,902.2	34,985.3	38,390.7

Sources: DBM, DOF, and NEDA

1/ Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 184th DBCC Meeting on April 24, 2023.
2/ A positive growth rate indicates an improvement in the fiscal balance, while a negative growth rate implies a deterioration in the fiscal balance.
3/ Total cash appropriations for FY 2022 as authorized under the General Appropriations Act (Republic Act No. 11639).

2.3 Cash-Based Budget Ceiling and Fiscal Space for FY 2024

In accordance with the continued implementation of the Cash Budgeting System (CBS) and the FY 2024 Budget Call[15], agencies must ensure that proposed programs, activities, and projects (PAPs) are implementation-ready and can be completed within the fiscal year, or until the allowable implementation period pursuant to the applicable general and special provisions of the General Appropriations Act (GAA). Agencies are therefore expected to undertake measures to improve spending efficiency to be able to fully deliver their proposed PAPs during the budget year.

[15] National Budget Memorandum No. 145 dated January 12, 2023, entitled National Budget Call for FY 2024.

Table 3. Derivation of FY 2024 Cash-Based Budget, in billion pesos

Particulars	2023 1/	2024 1/	Increase/(Decrease)	
			Amount	Percent
Total Disbursement Program	**5,228.4**	**5,547.3**	**318.9**	**6.1%**
% of GDP	*21.3%*	*20.8%*		
Less: Prior Years' Obligations	514.0	553.6	39.6	7.7%
% of Total Disbursement Program	*9.8%*	*10.0%*		
Current Year Disbursements	**4,714.4**	**4,993.7**	**279.3**	**5.9%**
% of GDP	*19.2%*	*18.8%*		
Add: Obligations to be paid in the succeeding year	553.6	756.9	203.3	36.7%
Cash Appropriations	**5,268.0**	**5,750.6**	**482.6**	**9.2%**
% of GDP	*21.5%*	*21.6%*		
GDP, in billion pesos	*24,522.1*	*26,628.0*		

1/ Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 184th DBCC Meeting on April 24, 2023.

The proposed FY 2024 cash budget is derived as shown in Table 3 above. The total disbursement program for FY 2024 is pegged at P5,547.3 billion. Of this amount, an estimated P553.6 billion is attributed to prior years' obligations which are set to be paid in FY 2024, while P4,993.7 billion is intended for projected current year disbursements. Considering the P756.9 billion obligations to be paid in the succeeding year[16], the total cash-based budget for FY 2024 is, thus, set at P5,750.6 billion, equivalent to 21.6 percent of GDP. The proposed cash-based appropriation for next year is P482.6 billion (9.2 percent) higher when compared to the P5,268.0 billion budget this year.

The national government shall continue to practice fiscal prudence and to efficiently use our limited resources. With this, all line departments/agencies shall maximize the use of available funds in view of the limited fiscal space. More specifically, in consideration of the availability of Continuing Appropriations for Maintenance and Other Operating Expenses (MOOE) and Capital Outlays (CO) from the FY 2022 GAA [Republic Act (RA) No. 11639] until December 31, 2023, as well as the two-year validity of MOOE and CO appropriations under the FY 2023 GAA (RA No. 11936), NGAs shall prioritize the completion of ongoing PAPs. Those with substantial unutilized appropriations are enjoined to focus on fast-tracking program/project implementation in order to reduce spill-over PAPs.

Furthermore, departments/agencies are encouraged to reevaluate their Tier 1 proposals. Any adjustments made in the Tier 1 levels could provide some fiscal headroom for priority new and expanded expenditure proposals under Tier 2.

Consequently, departments/agencies seeking additional funding for Tier 2 expenditures shall only include PAPs within the priorities outlined in the

[16] Consistent with the transitional implementation arrangements under the Cash Budgeting System for FY 2024.

NBM No. 147 dated March 29, 2023[17]. New spending proposals and expansion of existing PAPs shall be evaluated taking into consideration the available fiscal space, implementation readiness signifying delivery and execution of the PAP within the year, agency absorptive capacity as indicated by recent budget utilization rates, consistency with the priorities indicated in the Budget Priorities Framework, and an indicative Annual Procurement Plan (APP) allowing the agency to conduct of an early procurement process.

3.0 For immediate implementation.

AMENAH F. PANGANDAMAN
Secretary

[17] Budget Priorities Framework for the Preparation of the FY 2024 Agency Budget Proposals under Tier 2.