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DEPARTMENT OF BUDGET AND MANAGEMENT
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NATIONAL BUDGET MEMORANDUM

No. 152
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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 2025 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 2025 Cash Appropriations based on the macroeconomic assumptions and fiscal aggregates, which were approved by the Development Budget Coordination Committee (DBCC) on March 22, 2024.

2.0 MACROECONOMIC AND FISCAL ENVIRONMENT OF THE FY 2025 BUDGET

2.1 Macroeconomic Assumptions

For planning purposes, the following are the medium-term macroeconomic and growth assumptions approved by the DBCC during its 187th Meeting on March 22, 2024.

Table 1. Macroeconomic Assumptions, FYs 2024-2028.

Parameter	Actual 2023	Projections				
		2024	2025	2026	2027	2028
Real GDP Growth (%) 1/	5.5	6.0 – 7.0	6.5 – 7.5	6.5 – 8.0	6.5 – 8.0	6.5 – 8.0
Inflation (%) 2/	6.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0
Dubai Crude Oil (US$/bbl)	81.98	70 – 90	65 – 85	65 – 85	65 – 85	65 – 85
FOREX (₱/US$)	55.63	55 – 57	55 – 58	55 – 58	55 – 58	55 – 58
Growth of Goods Export (%) 3/	-4.1 /p	3.0	6.0	6.0	6.0	6.0
Growth of Goods Import (%) 3/	-5.0 /p	4.0	7.0	8.0	8.0	8.0

1/ At constant 2018 prices
2/ Actual and projections for inflation rate based on the 2018 CPI
3/ Based on the International Monetary Fund's (IMF) Balance of Payments and International Investment Position Manual, 6th Edition (BPM6)
/p - preliminary

The Philippine economy grew by 5.5 percent in 2023, keeping our pace as among the best-performing economies in Asia, second only to India (7.8 percent) but surpassing China (5.2 percent), Indonesia (5.0 percent), Vietnam (5.0 percent), Malaysia (3.7 percent), and Thailand (1.9 percent)[1]. It is also noted that the growth outturn exceeded or matched various forecasts by multilateral organizations such as those from the IMF, the ASEAN +3 Macroeconomic Research Office (AMRO), and the World Bank (WB). Despite a marked weakness in the global economy, geopolitical tensions abroad, and an elevated inflation rate, the growth outturn was supported by strong household consumption and investments growth, as well as robust growth in construction and services sectors. Over the medium-term, the government shall continue to pursue reforms and interventions aimed at improving ease of doing business and economic productivity, consistent with strategies and outcomes identified in the Philippine Development Plan (PDP) 2023-2028. Consistent therewith, the medium-term growth targets were set at 6.0 to 7.0 percent in 2024, 6.5 to 7.5 percent in 2025, and 6.5 to 8.0 percent from 2026 to 2028.

Inflation posted at 6.0 percent in 2023, driven by upticks in annual average prices of alcoholic beverages and tobacco, food and non-alcoholic beverages, and restaurant and accommodation services. Meanwhile, these are offset by slower increases in housing, water, electricity, gas and other fuels, as well as transport services. It must be underscored, however that inflation averaged at 3.3 percent for the first quarter of 2024, which is much lower than the 8.3 percent average in the first quarter of 2023. Continuing this trend, inflation is expected to fall within the target range of 2.0 to 4.0 percent for 2024. Over the medium-term, the risks to the inflation outlook remain tilted toward the upside in view of possible increases in electricity rates, transport charges, oil and domestic food prices, and the impact of El Niño conditions. These risks shall be managed and mitigated through proactive monetary policy actions by the Bangko Sentral ng Pilipinas (BSP) and government interventions aimed at increasing economic productivity, reducing tariffs of key agricultural commodities, and providing subsidies to vulnerable sectors. In view thereof, the medium-term inflation targets were retained at 2.0 to 4.0 percent for 2025 until 2028.

On the other hand, Dubai crude oil prices settled at 81.98 US$/bbl in 2023 from 97.05 US$/bbl in 2022, easing on account of weak global trade and improvements in global supply despite production cuts by the Organization of the Petroleum Exporting Countries Plus (OPEC+) and supply disruption concerns amid tensions in the Middle East. Over the near-term and based on the latest futures path, crude oil prices are expected to decline as production growth outpaces the increase in demand, but shall nevertheless be tempered over the medium-term by expected extensions of voluntary production cuts and geopolitical risks in the Middle East. To account for these developments, price assumptions for 2024 were set at 70 - 90 US$/bbl, while those from 2025 to 2028 were set at 65 - 85 US$/bbl.

The peso-dollar exchange rate increased to 55.63 ₱/US$ in 2023 from 54.48 ₱/US$ in 2022, depreciating on account of policy rate hikes by the U.S. Federal Reserve (FED) during the year, and continued fluctuations in global crude oil prices, among others. However, this was tempered by sustained inflows of foreign exchange from overseas Filipino remittances, receipts from business process outsourcing sector, and a healthy level of gross international reserves. Expectations for a broadly stable peso are anchored mainly on structural foreign exchange inflows and firm macroeconomic fundamentals. As such, over the medium-term, the exchange rate target will be 55 - 57 ₱/US$ for 2024, and 55 - 58 ₱/US$ for 2025 until 2028.

[1] Per the latest available data as of April 16, 2024

For external trade, preliminary growth in goods exports declined by 4.1 percent in 2023 from the 6.4 percent growth in 2022. Meanwhile, preliminary growth in goods imports likewise declined by 5.0 percent in 2023 from the 19.0 percent growth in 2022. The continued weakness in the global economy, the reductions in imports of mineral fuels and lubricants, as well as in imports for the manufacture of electrical equipment and machinery, are seen as among the primary drivers contributing to the downtrend in trade in goods. The outlook for goods exports growth is expected to remain subdued due to mounting trade distortions and geoeconomic fragmentation. On the other hand, goods imports is expected to improve on account of expected upturns in investments in public infrastructure, but may be tempered by upside risks to inflation, waning pent-up demand, and monetary policy tightening. As such, the medium-term targets for goods exports growth were set at 3.0 percent in 2024 and 6.0 percent from 2025 to 2028, while those for good imports growth were set at 4.0 percent in 2024, 7.0 percent in 2025, and 8.0 percent from 2026 to 2028.

Despite domestic and external headwinds, the National Government (NG) reaffirms its commitment to foster economic recovery and prosperity through the continued pursuit of development outcomes as enshrined in the 8-Point Socioeconomic Agenda, the Philippine Development Plan (PDP) 2023-2028, the Medium-Term Fiscal Framework (MTFF), and the Ambisyon 2040. The DBCC shall continue to support the achievement of a sound fiscal policy environment through prudent public financial management practices and a whole-of-government approach, and advocate for a more sustainable and future-proof economy for all Filipinos.

2.2 National Government Fiscal Environment, FYs 2023-2028

2.2.1 FY 2023 Fiscal Outturn

For the full year of 2023, the NG revenues reached P3,824.1 billion, which translate to 15.7 percent of GDP revenue effort. Actual collections were higher by P278.6 billion or 7.9 percent when compared to 2022 full-year outturn, as receipts from the Bureau of Internal Revenue (BIR) and Bureau of Customs (BOC) increased by P181.3 billion (7.8 percent) and P20.8 billion (2.4 percent), respectively. Total tax revenues amounted to P3,429.3 billion, P209.0 billion (6.5 percent) higher year-on-year, accounting for almost 90.0 percent of the total revenue collections in 2023. Non-tax revenues, on the other hand, contributed P394.8 billion, increasing by P69.6 billion or 21.4 percent largely due to higher Bureau of the Treasury (BTr) income. The overall revenue collection surpassed the P3,729.0 billion full-year program[2] by P95.1 billion or 2.6 percent[3] owing to larger dividend remittances by Government-Owned and Controlled Corporations (GOCCs), income from NG investments and interest on NG deposits, as well as NG share in the Philippine Amusement and Gaming Corporation (PAGCOR) profit.

Meanwhile, NG disbursements jumped to P5,336.2 billion (21.9 percent of GDP), P176.6 billion or 3.4 percent higher than the actual outturns in 2022. The growth of expenditures was largely driven by the catch-up spending of national government agencies (NGAs) in the latter part of the year, rebounding from the 93.4 percent disbursement rate[4] during the first semester to exceeding the full-year program by P107.8 billion (2.1 percent). In terms of expense class, disbursements were propelled mainly by capital outlays following the

[2] Based on the FY 2023 Fiscal Program approved by the DBCC during its 184th meeting held on April 24, 2023
[3] BTr Press Release (February 29, 2024). *Full Year 2023 Revenue and Disbursement Meet Program Levels.* Source: https://www.treasury.gov.ph/wp-content/uploads/2024/03/COR-Press-Release-FY-2023.pdf
[4] Pertains to first semester actual disbursements vs program for the period (P2.412 trillion outturns vs P2.582 trillion program).

accelerated implementation and fund mobilization for banner projects of the Department of Public Works and Highways (DPWH) nationwide. Among these are: (i) Samar Pacific Coastal Road Project, (ii) Davao City Bypass Construction Project, (iii) Improving Growth Corridors in Mindanao Road Sector Project, (iv) Integrated Disaster Risk Reduction and Climate Change Adaptation (IDRR-CCA) Measures in the Low-Lying Areas of Pampanga Bay Project, and (v) Metro Manila Flood Management Project. Similarly, infrastructure spending benefited from the substantial payments made by development partners for the implementation of foreign-assisted projects of the Department of Transportation (DOTr), namely the North-South Commuter Railway (NSCR) and Malolos-Clark Railway, among others.

The overall infrastructure disbursements[5] were ramped up to P1,419.0 billion, P140.5 billion (11.0 percent) higher year-on-year and P126.2 billion (9.8 percent) above the program. The share of infrastructure spending to GDP in 2023 was registered at 5.8 percent – matching the ratio in 2022, while surpassing the 5.3 percent of GDP target for 2023 by 0.5 percentage point. The NG's sustained vigorous investments in public infrastructures helped bolster the country's economic performance in 2023, contributing 0.5 percentage point to the 5.5 percent real GDP growth. This enabled the country to keep its position as one of the strongest performing economies in Asia.

The year end deficit for 2023 was recorded at P1,512.1 billion, equivalent to 6.2 percent of GDP, significantly lower than the P1,614.1 billion or 7.3 percent of GDP outturn in 2022 in line with the government's fiscal consolidation efforts. Likewise, NG debt as of end-December 2023 closed in at 60.2 percent of GDP from 60.9 percent in 2022.

2.2.2 FYs 2024-2028 Fiscal Program

The medium-term fiscal strategy has been recalibrated to appropriately pace a more reasonable fiscal consolidation vis-à-vis the initial targets embodied in the MTFF[6]. The calibration seeks to both maximize growth prospects and attain fiscal sustainability that specifically responds to recent macro-fiscal developments and risks amid the prolonged geopolitical strife in Ukraine and Gaza, and sluggish global demand, especially in advanced economies. Domestic headwinds, such as the persistent uptick in prices as well as climate vulnerabilities that cause supply chain disruptions were, likewise, considered. Thus, the deficit-to-GDP ratio is projected to taper off from 5.6 percent in 2024 to 3.7 percent by 2028[7].

Revenue mobilization will continue to support fiscal consolidation, with collections projected to reach P4,269.9 billion this year and up to P6,078.0 billion by 2028. Revenue effort from 2024 to 2028 will average 16.0 percent of GDP through enhanced tax administration measures by collecting agencies that include the implementation of the recently enacted Ease of Paying Taxes (EOPT) Law[8] and intensified anti-smuggling efforts. The approval of refined

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

[6] The MTFF was adopted by both Houses of Congress under Concurrent Resolution No. 4 dated September 19, 2022.

[7] Consistent with the macroeconomic assumptions, growth targets, and fiscal program approved during the 187th DBCC Meeting held on March 22, 2024.

[8] Republic Act (RA) No. 11976 ("An Act Introducing Administrative Tax Reforms, Amending Sections 21, 22, 51, 56, 57, 58, 76, 77, 81, 90, 91, 103, 106, 108, 109, 110, 112, 113, 114, 115, 116, 117, 118, 119, 120, 128, 200, 204, 229, 235, 236, 237, 238, 241, 242, 243, 245, 248, And 269; And Repealing Section 34(K) Of The National Internal Revenue Code Of 1997, As Amended, And For Other Purposes") was approved on January 5, 2024.

priority tax measures, namely the imposition of value-added tax (VAT) on digital service providers and excise tax on single-use plastic bags; Package 4[9] of the Comprehensive Tax Reform Program (CTRP); rationalization of the mining fiscal regime; and the reform on the Motor Vehicle User's Charge (MVUC), will also make headway in increasing revenue collections and transforming the Philippine tax system over the medium term.

Meanwhile, the expansion in the deficit path will allow disbursements to average at nearly 21.0 percent of GDP and rise from P5,754.3 billion in 2024 to P7,449.9 billion by the end of the plan period. The government will capitalize on productive expenditures to spur economic growth with the overall infrastructure program being maintained at between 5.0 and 6.0 percent of GDP. More specifically, to sustain the momentum of the Build-Better-More infrastructure agenda, NGAs will focus on addressing implementation bottlenecks, extend their programs/projects to remote areas, and champion high-impact infrastructure flagship projects (IFPs). The participation of the private sector will also be critical in this regard and will be strengthened under the new Public-Private Partnership (PPP) Code of the Philippines[10].

Table 2. Fiscal Aggregates, FYs 2023-2028

Particulars	2023	2024	2025	2026	2027	2028
	Actual	Projections 1/				
Levels, in billion pesos						
Revenues	3,824.1	4,269.9	4,583.3	4,956.6	5,487.7	6,078.0
Disbursements	5,336.2	5,754.3	6,074.2	6,433.5	6,887.2	7,449.9
Fiscal Balance	(1,512.1)	(1,484.3)	(1,490.9)	(1,476.8)	(1,399.5)	(1,371.9)
Appropriations	5,268.0 3/	5,767.6	6,200.0	6,643.9	7,045.4	7,602.3
Percent of GDP						
Revenues	15.7	16.1	15.8	15.8	16.1	16.4
Disbursements	21.9	21.7	21.0	20.5	20.2	20.1
Fiscal Balance	(6.2)	(5.6)	(5.2)	(4.7)	(4.1)	(3.7)
Appropriations	21.7	21.8	21.4	21.1	20.6	20.5
Growth Rate						
Revenues	7.9	11.7	7.3	8.1	10.7	10.8
Disbursements	3.4	7.8	5.6	5.9	7.1	8.2
Fiscal Balance 2/	6.3	1.8	(0.4)	0.9	5.2	2.0
Appropriations	4.9	9.5	7.5	7.2	6.0	7.9
GDP, in billion pesos	24,318.6	26,495.6	28,925.7	31,422.0	34,133.7	37,079.4

Sources: DBM, DOF, and NEDA

1/ Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 187th DBCC Meeting on March 22, 2024.

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 2023 as authorized under the General Appropriations Act (Republic Act No. 11936).

[9] Formerly known as Passive Income and Financial Intermediary Taxation Act (PIFITA)

[10] RA No. 11966 ("An Act Providing for the Public-Private Partnership (PPP) Code of the Philippines") was enacted on December 5, 2023.

In addition, human capital development will be prioritized as funding will be provided to programs/activities/projects (PAPs) that address education inadequacies and learning loss from the pandemic, enhance health and social protection, and raise the productivity of the labor force. Sizable budget allocation will also be given to agriculture, tourism, and micro, small, and medium enterprises (MSMEs) to stimulate growth in their respective sectors, alongside digitalization efforts to scale up public service delivery.

The NG remains committed to balancing fiscal sustainability while ensuring that the country's development needs are addressed. Hence, even with the revised medium-term deficit path, the NG debt-to-GDP ratio is expected to decline to 55.9 percent by 2028, from 60.2 percent in 2023. The NG will also continue to be vigilant in case downside risks materialize and will deploy the necessary policy tools to maintain a sustainable fiscal position, manage inflation, and implement programs that will help reinvigorate the economy and achieve inclusive growth.

2.2.3 Cash-Based Budget Ceiling and Fiscal Space for FY 2025

The DBCC-approved disbursement program for FY 2025 amounts to P6,074.2 billion, climbing by P320.0 billion or 5.6 percent year-on-year as shown in Table 3 below. The bulk of this amount, specifically P5,488.3 billion, pertains to projected current year disbursements, while around 9.6 percent or P586.0 billion is for payment of prior year's obligations. On the other hand, an estimated P711.7 billion in obligations are expected to be paid in the succeeding year following the transitional implementation of the Cash Budgeting System (CBS). Hence, the proposed cash appropriations for 2025 will total to P6,200.0 billion (21.4 percent of GDP). It will increase by P432.4 billion or 7.5 percent when compared to the FY 2024 National Budget in support of the priorities of this Administration outlined in the PDP 2023-2028 and other pertinent planning documents mentioned in the National Budget Call for FY 2025[11].

[11] National Budget Memorandum No. 149 dated December 27, 2023

Table 3. Derivation of FY 2025 Cash-Based Budget, in billion pesos

Particulars	2024 1/	2025 1/	Increase/(Decrease)	
			Amount	Percent
Total Disbursement Program	**5,754.3**	**6,074.2**	**320.0**	**5.6%**
% of GDP	*21.7%*	*21.0%*		
Less: Prior Years' Obligations	572.6	586.0	13.3	2.3%
% of Total Disbursement Program	*10.0%*	*9.6%*		
Current Year Disbursements	**5,181.6**	**5,488.3**	**306.6**	**5.9%**
% of GDP	*19.6%*	*19.0%*		
Add: Obligations to be paid in the succeeding year	586.0	711.7	125.8	21.5%
Cash Appropriations	**5,767.6**	**6,200.0**	**432.4**	**7.5%**
% of GDP	*21.8%*	*21.4%*		
GDP, in billion pesos	*26,495.6*	*28,925.7*		

1/ Projections consistent with the macroeconomic assumptions, growth targets, and fiscal program approved during the 187th DBCC Meeting on March 22, 2024.

Given that the budget for Tier 1 or requirements of ongoing programs/projects is expected to corner the lion's share of available funding, agencies are reminded that only key PAPs outlined in NBM No. 151 dated March 19, 2024[12] shall be included under the Tier 2 proposals for new and/or expanded programs and projects. Implementation-ready PAPs that can be completed within the fiscal year, or until the allowable implementation period as provided in the applicable general and special provisions of the General Appropriations Act (GAA), if any, shall be accorded top priority in line with the principles of CBS. Budget evaluation will also take into account agencies' capacity to carry out new program/project proposals as evidenced by their budget utilization rate and availability of an indicative annual procurement plan (APP) and other supporting documents. Furthermore, line departments/agencies shall anticipate the spending ban in relation to the conduct of 2025 National and Local Elections and are advised to plan accordingly so that budget execution remains unhampered.

The expected higher National Tax Allotment (NTA) shares of Local Government Units (LGUs) in FY 2025 following the larger actual tax revenue collections in 2022 (i.e., base year of NTA determination) will empower local governments to strengthen the delivery of basic public goods and services, as well as improve fiscal administration. Hence, to ensure that limited fiscal space is maximized, NGAs shall avoid the duplication and implementation of overlapping programs/projects with that of the LGUs.

NGAs are also enjoined to utilize available funds from previous year's budget and focus on the completion of ongoing activities. To recall, program appropriations of NGAs for Maintenance and Other Operating Expenses (MOOE) and Capital Outlays (CO) under the FY 2024 GAA (RA No. 11975) remain valid until the end of 2025.

[12] Budget Priorities Framework for the Preparation of the FY 2025 Agency Budget Proposals under Tier 2

The indispensable role of government in stirring domestic economic activity cannot be overstated. The underperformance in government spending during the first semester of 2023 affected the NG's contribution to the overall economic output. Corollary, swifter budget utilization, coupled with the efficient implementation of PAPs, will be vital for full economic recovery.

Agencies are, therefore, urged to continue their efforts to strengthen budget execution and maximize the early release of allotments under the General Appropriations Act as the Allotment Order (GAAAO) policy by undertaking proper planning and early procurement, and ensuring comprehensive preparatory works are completed. These include an improved targeting and distribution system for beneficiaries of social programs, as well as pre-construction activities like the acquisition of right-of-way/relocation sites for infrastructure projects, among others.

3.0 For immediate implementation.

AMENAH F. PANGANDAMAN
Secretary

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