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

NATIONAL BUDGET MEMORANDUM

No. 155
Date: July 2, 2025

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 2026 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 2026 Cash Appropriations based on the macroeconomic assumptions and fiscal aggregates, which were approved by the Development Budget Coordination Committee (DBCC) on June 23, 2025.

2.0 MACROECONOMIC AND FISCAL ENVIRONMENT OF THE FY 2025 BUDGET

2.1 Macroeconomic Assumptions

The DBCC, during its 191st Meeting on June 23, 2025, approved the following medium-term macroeconomic and growth assumptions for the preparation of the FY 2026 National Budget.

Table 1. Macroeconomic Assumptions, FYs 2025-2028.

Parameter	Actual 2024	Projections 2025	2026	2027	2028
Real GDP Growth (%) 1/	5.7	5.5-6.5	6.0-7.0	6.0-7.0	6.0-7.0
Inflation (%) 2/	3.2	2.0-3.0	2.0-4.0	2.0-4.0	2.0-4.0
Dubai Crude Oil (US$/bbl)	79.66	60-70	60-70	60-70	60-70
FOREX (₱/US$)	57.29	56-58	56-58	56-58	56-58
Growth of Goods Export (%) 3/	-0.4 /p	-2.0	2.0	2.0	2.0
Growth of Goods Import (%) 3/	2.0 /p	3.5	4.0	4.0	4.0

1/ At constant 2018 prices
2/ Actual and projections for inflation rate based on the 2018 Consumer Price Index
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 remained resilient, achieving a 5.7 percent expansion in Gross Domestic Product (GDP) in 2024, which is slightly faster than the 5.5 percent growth recorded in 2023, despite external and domestic challenges such as extreme weather events, geopolitical tensions, and subdued global demand. This growth is primarily attributed to stronger wholesale and retail trade, financial and insurance activities, as well as professional and business services. With this performance, the Philippines remains as one of Asia's best-performing major emerging economies, following Vietnam (7.5 percent) while leading China (5.4 percent) and Malaysia (4.8 percent). In accordance with the priorities and outcomes identified in the Philippine Development Plan (PDP) 2023-2028, the Government of the Philippines (GOP) will continue to implement strategic reforms and targeted interventions to strengthen resilience, enhance adaptability, and boost economic productivity. Consistent therewith, the medium-term growth targets were set at 5.5 to 6.5 percent in 2025, and 6.0 to 7.0 percent for 2026 through 2028, reflecting a more measured and resilient outlook amid global headwinds.

Full-year average inflation for 2024 eased to 3.2 percent, significantly lower than the 6.0 percent recorded in 2023 and remaining within the 2.0 to 4.0 percent target range of the GOP. This sharp reduction is primarily driven by slower increases in prices of food and non-alcoholic beverages and housing, water, electricity, gas, and other fuels. This underscores the administration's commitment in managing inflation, considering a whole-of-government approach and the concerted efforts of its stakeholders. The timely implementation of policies and measures became crucial in mitigating inflation pressures, allowing prices to stabilize within target after two years of elevated inflation levels. For instance, the GOP implemented several key initiatives to mitigate rice inflation. The imposition of lower tariff on rice under Executive Order (EO) 62[1] and stabilizing rice prices in the international market, have significantly moderated prices, which benefited households, particularly those with lower incomes. With this development, risks to the inflation outlook for 2025 through 2027 have moderated and remain broadly balanced. Upward pressures may arise from potential increases in transportation costs, meat prices, and utility rates, while downside risks are primarily associated with the sustained effects of reduced rice import tariffs and anticipated impact of subdued global demand. While inflation assumptions for 2025 were revised to 2.0 to 3.0 percent, 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 79.66 US$/barrel (bbl) in 2024 from 81.98 US$/bbl in 2023, reflecting ongoing uncertainty driven by changing tariff and oil production policies, geopolitical tensions, and variations in economic growth. Over the near-term, positive developments in US-China trade talks and recent rapid escalation of geopolitical tensions between Iran and Israel amplified the upside risks to the latest oil price outlook. Meanwhile, downside risks linked to the uncertainty on US policies and prospects of oversupply of oil remain. Reflecting these dynamics, the most recent futures prices and projections indicates that the crude oil prices are expected to fall within the 60 to 70 US$/bbl from 2025 to 2028, suggesting a restrained global crude oil price environment in the foreseeable future.

The peso-dollar exchange rate increased to PHP57.29/US$ from PHP55.63/US$, reflecting a depreciation of the peso amid broad US dollar strength, following the Fed's decision to pause in easing of its policy rates. Meanwhile, the peso's depreciation was tempered by the recovery in travel, BPO receipts, and robust remittances—particularly in the fourth quarter of 2024—which provided support to the domestic currency. The

[1] On June 29, 2024, President Marcos issued Executive Order No. 62, mandating modification of nomenclature and tariff rates on various products to ensure continues supply of goods and to protect the purchasing power of the Filipino people.

foreign exchange rate is projected to remain stable, averaging between PHP56 to 58/US$ from 2025 through 2028, underpinned by lower domestic inflation and shaped by evolving global financial conditions and external trade performance.

For external trade, preliminary growth in goods export declined slightly by 0.4 percent in 2024, marking a notable improvement from the 4.1 percent contraction recorded in 2023. Meanwhile, preliminary growth in goods imports grew by 2.0 percent in 2024, rebounding strongly from the 5.0 percent contraction experienced in the previous year. This was primarily attributed to the less positive outlook on semiconductor exports for the year despite the increasing global electronics demand. Against this backdrop, the emerging external outlook adopts a cautiously optimistic stance compared to the previous projection exercise. Although the overall risk landscape remains broadly unchanged, the evolving geopolitical tensions in the Middle East warrant close monitoring, as they have the potential to introduce new challenges—such as elevated crude oil prices and subdued market sentiment—that may further constrain the growth of goods exports and imports, while also intensifying existing risks, including monetary policy tightening by central banks. Therefore, the medium-term targets for goods exports growth were set at -2.0 percent in 2025, driven primarily by weaker global demand and increased trade policy uncertainties, followed by a gradual recovery with a 2.0 percent growth anticipated from 2026 to 2028. Meanwhile, goods imports are expected to rise by 3.5 percent in 2025, supported by robust domestic economic activity, and are expected to accelerate to 4.0 percent in 2026 to 2028, bolstered by lower inflation, steady domestic consumption, and ongoing infrastructure investments.

Despite persistent domestic and global challenges, the Marcos Jr. Administration remains unwavering in its commitment to driving rapid, sustained, and inclusive economic growth, with the ultimate goal of ensuring a *matatag, maginhawa, at panatag na buhay* for all Filipinos. Anchored on the 8-Point Socioeconomic Agenda, the PDP 2023–2028, the Medium-Term Fiscal Framework, and *Ambisyon Natin* 2040, the GOP adopts a whole-of-government and whole-of-society approach to development planning and implementation. By prioritizing inflation management, enhancing social protection systems, and pursuing critical structural reforms; the government shall sustain economic momentum, reduce poverty, and ensure that the benefits of progress are equitably distributed across all sectors and regions of the country.

2.2 National Government Fiscal Environment, FYs 2024-2028

2.2.1 FY 2024 Fiscal Outturn

Total National Government (NG) revenue collections for full-year 2024 reached P4,419.0 billion[2] (16.7 percent of GDP), posting a notable 15.6 percent expansion equivalent to P594.9 billion. This strong revenue collection performance was spurred partly by tax revenues, contributing P3,800.7 billion or 86.0 percent of the total revenues collected. Tax revenues grew by P371.4 billion or 10.8 percent when compared to the 2023 collections. In particular, receipts coming from the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) increased by P334.6 billion (13.3 percent) and P33.5 billion (3.8 percent) year-on-year, respectively. Meanwhile, total non-tax revenues[3] significantly rose to P618.3 billion, P223.5 billion or 56.6 percent higher year-on-year. The increase was mainly driven by higher dividend remittances, interest advances from government-owned and controlled corporations (GOCCs), the NG share from Philippine Amusement and Gaming Corporation

[2] BTr Press release (27 February 2025). *Full-Year 2024 Total Revenues Surpassed Target at PHP 4.419 Trillion, Bringing Revenue Effort to 16.72%—The Highest in the Last 27 Years.* Source: https://www.treasury.gov.ph/wp-content/uploads/2025/02/COR-Press-Release-FY-2024.pdf

[3] Inclusive of privatization proceeds.

(PAGCOR) profits. It also included the fund balance transfers from the Philippine Health Insurance Corporation (PHIC) and the Philippine Deposit Insurance Corporation (PDIC), as well as concession fees from Public-Private Partnership (PPP) projects. Likewise, total non-tax revenues exceeded the P449.6 billion program by P168.7 billion (37.5 percent), offsetting the P19.6 billion shortfall in tax revenues.

On the other hand, total NG disbursements in 2024 expanded to P5,925.4 billion, higher by P589.2 billion or 11.0 percent year-on-year and above the P5,754.3 billion program by P171.1 billion or 3.0 percent. The better-than-expected spending was mainly attributed to i) faster infrastructure and other capital outlays from the Department of Public Works and Highways' (DPWH) road infrastructure projects and the Department of National Defense's (DND) modernization program; ii) maintenance and other operating expenses for various health, agriculture, and social protection programs; and iii) personnel services expenditures due to the implementation of the first tranche of salary adjustments of qualified civilian government employees under Executive Order No. 64[4], among others.

Relatedly, the overall infrastructure disbursements[5] in 2024 reached P1,545.2 billion, marking a P126.2 billion (8.9 percent) increase from the P1,419.0 billion outturn in 2023. It also surpassed the P1,472.8 billion program by P72.4 billion (4.9 percent). In proportion to GDP, the total infrastructure spending was equivalent to 5.8 percent, maintaining the same ratio in 2023 and exceeding the earlier 2024 projection of 5.6 percent.

The NG's final consumption expenditure remained a key contributor to economic growth, accounting for 1.0 percentage point (ppt) of the 5.7 real GDP growth in 2024. The overall infrastructure disbursements, on the other hand, contributed 0.7 ppt.

The full-year fiscal deficit for 2024 settled at P1,506.4 billion, equivalent to 5.7 percent of GDP. This sustains the fiscal consolidation path coming from the 6.2 percent deficit-to-GDP ratio in 2023. Meanwhile, the outstanding NG debt as of end-December 2024 remained manageable, accounting for 60.7 percent of GDP. The NG continues to strengthen efforts to ensure debt sustainability through effective cash and debt management strategies.

2.2.2 FYs 2025-2028 Fiscal Program

The medium-term fiscal program was recalibrated further to strengthen the policy tools of the government and allow it to be more flexible to appropriately respond to recent global developments. The heightened external and domestic uncertainties in the macro-fiscal environment brought about by the recent geopolitical tensions in the Middle East, the US trade and economic policies, and slower-than-expected global economic recovery warranted the revision of the Medium-Term Fiscal Framework's (MTFF) headline targets and fiscal projections. This approach signifies the NG's determination to support a meaningful and sustainable development while still upholding its commitment to long-term fiscal sustainability.

[4] Entitled "Updating the Salary Schedule for Civilian Government Personnel and Authorizing the Grant of an Additional Allowance, and for Other Purposes", dated August 2, 2024.
[5] Include estimated NG infrastructure disbursements, and infrastructure components of subsidy and equity to GOCCs and transfers to LGUs

As such, revenue effort will continue to be improved, underpinned by the passage of recent tax reform measures (e.g., Value-Added Tax on Digital Service Providers[6] and the Capital Markets Efficiency Promotion Act[7]), as well as ongoing digitalization, tax administration, and compliance enforcement initiatives. Revenue collections are, thus, projected to increase steadily, from P4,520.4 billion in 2025 to P5,914.8 billion by 2028 with revenue effort averaging 16.1 percent of GDP.

NG disbursements, on the other hand, will be supported by the wider deficit targets amid the adjustment in revenue projections. Spending is programmed at P6,082.1 billion this year and will reach P6,630.0 billion in 2026 before breaching the P7.0 trillion mark by 2028. It will remain above 20.0 percent of GDP over the medium term to sustain funding support for priority sectors and consolidate gains from human capital development, poverty reduction, and economic programs. This will also help maximize the economic multiplier effects of public infrastructure investments, which will be kept at between 5.0 and 6.0 percent of GDP.

Public spending will continue to be a significant driver of growth, helping attain the government's revised real GDP growth targets of 5.5 to 6.5 percent this year and 6.0 to 7.0 percent for the next three years. This is a critical component of the government's three-pronged approach to fiscal consolidation – revenue mobilization, public spending efficiency, and sustained high-growth trajectory – to outgrow debt over time.

Table 2. Fiscal Aggregates, FYs 2024-2028

Particulars	2024	2025	2026	2027	2028
	Actual	Projections [1/]			
Levels, in billion pesos					
Revenues	4,419.0	4,520.4	4,983.4	5,366.4	5,914.8
Disbursements	5,925.4	6,082.1	6,630.0	6,970.2	7,466.4
Fiscal Balance	(1,506.4)	(1,561.7)	(1,646.6)	(1,603.7)	(1,551.6)
Appropriations	5,767.6 [3/]	6,326.3	6,793.2	7,232.1	7,702.2
Percent of GDP					
Revenues	16.7	15.9	16.2	16.0	16.3
Disbursements	22.4	21.4	21.5	20.8	20.6
Fiscal Balance	(5.7)	(5.5)	(5.3)	(4.8)	(4.3)
Appropriations	21.8	22.3	22.0	21.6	21.2

[6] Republic Act (RA) No. 12023 ("An Act Amending Sections 105, 108, 109, 110, 113, 114, 115, 128, 236, and 288 And Adding New Sections 108-A and 108-B of the National Internal Revenue Code of 1997, As Amended) was approved on October 2, 2024.

[7] RA No. 12214 ("An Act Amending Sections 22, 24, 25, 27, 28, 32, 34, 38, 39, 42, 51, 52, 56, 57, 127, 149, 174, 176, 179, 190, 199, and 258 of Republic Act No. 8424, Otherwise known as the National Internal Revenue Code of 1997, As Amended, and for Other Purposes) was approved on May 29, 2025.

Particulars	2024	2025	2026	2027	2028
	Actual	Projections [1/]			
Growth Rate					
Revenues	15.6	2.3	10.2	7.7	10.2
Disbursements	11.0	2.6	9.0	5.1	7.1
Fiscal Balance [2/]	0.4	(3.7)	(5.4)	2.6	3.2
Appropriations	9.5	9.7	7.4	6.5	6.5
GDP, in billion pesos	26,446.4	28,355.9	30,848.0	33,461.1	36,295.5

Sources: DBM, DOF, and DEPDev

1/ Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 191st DBCC Meeting on June 23, 2025.

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 2024 as authorized under the General Appropriations Act (Republic Act No. 11975).

The new deficit path, although now wider than the original MTFF targets and the updated targets in the FY 2025 BESF, will continue with its downward trajectory. From 5.7 percent of GDP actual in 2024, the deficit is programmed at 5.5 percent of GDP this year and will be reduced further to 4.3 percent of GDP by 2028. The gradual reduction of the deficit over time is crucial not only to rebuilding fiscal buffers, helping achieve macroeconomic stability, and lowering debt to sustainable levels, but also in supporting inclusive economic growth.

2.2.3 FY 2026 Proposed Budget

The proposed budget for FY 2026 is P6,793.2 billion which is equivalent to 22.0 percent of GDP. This marks a 7.4 percent increase from this year's P6,326.3 billion national budget. The proposed budget next year is intended to sustain funding to expenditure priorities that respond to development gaps in various sectors and continue to address the lingering effects of the pandemic. Faithful to the government's agenda of prosperity, the theme of the FY 2026 proposed budget is *"Nurturing a Future-Ready Generation to Achieve the Full Potential of the Nation"*.

Guided by this theme, the government will prioritize human capital development – investing heavily in the education, health, labor and employment, and agriculture sectors, as well as social protection programs. Investments in public infrastructures, through the Build-Better-More Program and Three-year Rolling Infrastructure Program, will be sustained to ensure improvement in physical connectivity, water resources, agriculture, health, and digital infrastructures.

Cognizant of the revised fiscal targets and genuine to our commitment to fiscal responsibility and sustainability, this approach of strategically aligning our limited resources to development priorities will be complemented by i) expenditure efficiency measures, ii) acceleration of implementation/completion of ongoing programs/projects, including carry-over projects, iii) efforts to optimize the bureaucracy with the anticipated enactment of the Government Optimization Bill[8], iv) continued partnership with the private sector as supported by the new PPP Code[9]; as well as v) initiatives to facilitate the devolution process and capacitate local governments for a more equitable and meaningful local development.

3.0 For immediate implementation.

AMENAH F. PANGANDAMAN
Secretary

[8] Ratified by both Houses of Congress on June 4, 2025.
[9] RA No. 11966 ("An Act Providing for the Public-Private Partnership (PPP) Code of the Philippines") was enacted on December 5, 2023.