Budget Notes

SENATE ECONOMIC PLANNING OFFICE

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Macroeconomic and Fiscal Assumptions of the Proposed 2023 National Budget

The proposed National Budget for 2023 amounts to PhP5.268 trillion. This is 4.9 percent higher than this year's budget of PhP5.024 trillion and will account for around 22 percent of gross domestic product (GDP) next year. The first budget under the administration of President Ferdinand "Bongbong" Marcos Jr. is crafted to support the 8-Point Socioeconomic Agenda and is anchored on the theme *Agenda for Prosperity: Economic Transformation towards Inclusivity and Sustainability*.

Macroeconomic Assumptions

The successful implementation of the government's disbursement plan is hinged on a set of macroeconomic assumptions determined by the Development Budget Coordination Committee (DBCC). These assumptions should be scrutinized as they determine the viability of the budget—whether the proposed expenditure program is reasonable and whether there are sufficient resources to finance it. The macroeconomic assumptions of the proposed 2023 National Budget are as follows:

Table 1. 2023 National Budget Macroeconomic Assumptions

Indicators	2021 Actual	2022 Adjusted	2023 Projected
Real GDP Growth (%)	5.7	6.5-7.5	6.5-8.0
Inflation (%) - forecast	3.9	4.5-5.5	2.5-4.5
Dubai Crude Oil (USD/bbl)	68.77	90-110	80-100
Foreign Exchange (PhP/USD)	49.25	51-53	51-55
Export Growth (%)	12.4	7.0	6.0
Import Growth (%)	31.7	18.0	6.0

Source: 2023 Budget of Expenditures and Sources of Financing (BESF), DBCC

<u>*GDP Growth*</u>

- The Philippine economy grew by 7.4 percent in the second quarter of 2022, bringing first semester growth to 7.8 percent in the first half of the year. Such expansion is in line with the government's growth target of 6.5 percent to 7.5 percent for 2022. On the expenditure side, both government expenditure and gross capital (i.e., investment) sustained their growth momentum in the second quarter, growing by 11.1 percent and 20.5 percent, respectively. The strong expansion in construction as well as durable equipment bode well for the country's growth prospects for the remaining half of the year. Household consumption and trade also showed resilience albeit they grew less robustly than in the first quarter. The slowdown in household consumption and trade is a manifestation of the negative impact of rising prices as well as the continuation of supply chain disruptions (both domestic and external).

Table 2. Philippine GDP Growth Rates (2020-2022)

Growth Rates, at Constant 2018 Prices	Annual Growth		2022	
	2020	2021	Q1	Q2
Gross Domestic Product	-9.5	5.7	8.2	7.4
Net primary income from the rest of the world	-31.1	-51.3	105.4	64.8
Gross National Income	-11.5	1.7	10.6	9.3
Consumption side				
01. Household final consumption expenditure	-8.0	4.2	10.0	8.6
02. Government final consumption expenditure	10.5	7.1	3.6	11.1
03. Gross capital formation	-34.2	20.3	20.4	20.5
A. Gross fixed capital formation	-27.3	9.9	11.8	13.2
1. Construction	-30.1	11.1	14.7	15.7
2. Durable equipment	-29.7	12.2	9.9	11.7
04. Exports of goods and services	-16.1	8.0	10.4	4.3
A. Exports of goods	-8.6	11.6	5.8	-2.1
B. Exports of services	-25.4	2.5	16.6	12.6
05. Less : Imports of goods and services	-21.6	13.0	15.4	13.6
A. Imports of goods	-20.3	18.0	12.3	11.3
B. Imports of services	-26.8	-9.7	32.5	29.9
Production side				
Agriculture, forestry and fishing	6.2	6.9	0.2	0.2
Industry	-13.9	10.0	10.5	6.3
01. Mining and quarrying	-15.2	35.2	20.3	-7.3
02. Manufacturing	-12.3	8.0	9.8	2.1
03. Electricity, steam, water and waste management	0.5	6.5	5.6	5.4
04. Construction	-23.2	14.2	14.7	19.0
Services	-7.2	7.5	8.3	9.1
01. Wholesale and retail trade; repair of motor vehicles and motorcycles	-5.7	5.6	7.0	9.7
02. Transportation and storage	-27.3	9.8	26.3	27.1
03. Accommodation and food service	-41.4	12.7	20.3	29.9
04. Information and communication	5.4	8.0	7.4	10.7
05. Financial and insurance activities	8.4	7.6	7.7	4.2
06. Real estate and ownership of dwellings	-13.9	5.3	5.9	3.9
07. Professional and business services	-6.7	7.3	8.3	7.7
08. Public administration and defense; compulsory social activities	6.7	8.4	0.8	9.1
09. Education	-7.6	10.7	8.5	5.3
10. Human health and social work activities	-1.4	18.6	1.4	1.8
11. Other services	-39.6	3.3	22.7	39.5

Source: Philippine Statistics Authority (PSA)

- On the production side, both industry and services likewise maintained their growth trajectories. The lifting of travel restrictions and increased mobility as well as the continuing vaccination drive boosted services' performance—with transportation and storage and accommodation and food service expanding by 27.1 percent and 29.9 percent, respectively. Except for construction, all other sub-sectors of the industry sector (i.e., mining, manufacturing, electricity, water and waste management) exhibited some deceleration. This could also be attributed to the high prices of oil and energy. The agriculture sector remains lethargic mainly owing to high input costs and low productivity.

- If the first quarter economic performance will be sustained or if at least 5.2 percent growth in the second half is registered, then the full-year GDP growth target for 2022 will be met. The biggest threats to growth are the high inflation rate and the weakening global economy. Headline inflation hit 6.3 percent in August and averaged at 4.9 percent in the first eight months of 2022. Household consumption, which accounted for almost 70 percent of GDP, and which drove growth in the first semester will most likely be tempered by high prices. In addition, the Bangko Sentral Pilipinas (BSP) has raised its policy rates by a total of 175 basis points since May. While this may tame inflationary pressures, the higher borrowing cost could weigh in on household and investment demand. The external environment, which has increasingly become somber, is also likely to hold back growth prospects. The International Monetary Fund (IMF) projects global growth to slow down from 6.1 percent last year to 3.2 percent in 2022.

Table 3. Philippine Growth Forecasts, 2022 and 2023 (in %)

Institution	2022	2023
DBCC	6.5-7.5	6.5-8.0
Asian Development Bank	6.5	6.3
International Monetary Fund	6.7	5.0
World Bank	5.7	5.6
Fitch Solutions*	6.6	6.3
Standard & Poor's (S&P) Global Ratings*	6.5	6.9
Moody's Analytics*	7.2	5.4
Nomura*	6.3	3.6

*Sources: ADB Asian Development Outlook Supplement July 2022; IMF July 2022 World Economic Outlook Update; World Bank Philippines Economic Update June 2022; Fitch Solutions; *News articles from Philippine Star, Manila Times, and Business World*

- If global economic conditions do not improve in 2023, then meeting the 2023 growth target of 6.5 percent to 8.0 percent will likewise be challenging. The IMF projects global output to grow even slower in 2023, to 2.9 percent. Even as the Asian Development Bank (ADB) raised its growth projection for the Philippines to 6.5 percent for 2022, it maintained its slower growth forecast of 6.3 percent in 2023. The World Bank meanwhile, projects annual growth for the Philippines at 5.6 percent in 2023. Other credit watchers (i.e., Fitch, S&P Ratings, etc.) so far have maintained their credit rating for the country albeit gave the country a negative outlook, which could portend a downgrade. They cited that the slowdown of China, a main trading partner, could drag on the Philippine's growth prospects in the near term.

- External headwinds specifically, rising interest rates and weakening economies of the United States of America (USA) and China (i.e., the Philippines' top trading partners) will adversely affect economic prospects. The USA remains the country's largest export market while China is the country's largest supplier of imported goods. Growth in the European Union (EU) area, another major trading partner of the Philippines is also seen to decelerate reflecting the spillovers from the Russia-Ukraine war.

- Moreover, tighter global financial conditions could influence the speed at which the infrastructure program is implemented. If growth prospects are anchored to the build-up of infrastructure and its multiplier effects, then general risk aversion in global financial markets will also likely weigh in on growth. Aside from global financial crunch, other factors that could drag growth prospects over the medium term would be overall post-pandemic economic scarring (i.e., limited fiscal resources, closed businesses, learning loss, and job mismatch). In light of these factors, domestic sources of growth should be strengthened. Focus should be given to ramping up job-generating investments and further enabling public-private partnerships (PPPs).

Inflation

- Headline inflation continued its uptrend and hit 6.3 percent in August, averaging at 4.9 percent in the first eight months of 2022. This is still within the BSP's adjusted inflation forecast of 4.5 percent to 5.5 percent for the year but much higher than its initial target of 2.0 percent to 4.0 percent. The inflationary pressure initially resulting from the decline in domestic hog and livestock production was exacerbated by the sharp rise in global oil and commodity prices. The food index posted a year-on-year inflation rate of 6.5 percent in August. In particular, meat and fish/seafood contributed substantially to food inflation (0.6 percentage points and 0.4 percentage points, respectively). For non-food items, electricity, gas, and other fuels and operation of personal transport equipment posted 15.7 percent and 34.7 percent inflation rates, respectively, during the same period.

Table 4. Inflation and Contribution to Inflation of Selected Items, August 2022

Items	Weight	Inflation y-o-y	Contribution to Inflation
All items	100.00	6.3	6.3
Food	**35.5**	**6.5**	**2.3**
Rice	9.6	2.2	0.2
Meat	6.2	9.6	0.6
Fish/Seafood	5.7	7.2	0.4
Flour, Other Cereals, Pasta	3.3	8.0	0.3
Sugar, Confectionaries	1.0	2.60	0.3
Non-food	**61.7**	**6.2**	**3.8**
Housing, Water, Electricity, Gas, Other Fuels	22.0	6.8	1.5
Electricity, Gas, Other Fuel	7.4	15.7	1.2
Transport	8.1	14.6	1.2
Operation of Personal Transport	2.5	34.7	0.9

Source of basic data: PSA
Note: y-o-y is year-on-year; August 2021 to August 2022

- Upside risks to inflation remain, including persistent supply side disruptions due to slower external trade and adverse weather conditions especially in the last part of the year when typhoons usually enter the country. As such, monetary policy will likely remain hawkish for the rest of 2022. Fitch Solutions forecasts the BSP to hike up policy rates further from the current 3.75 percent to 4.5 percent by year-end, with its forecasted inflation rate of 5.6 percent slightly higher than the BSP's adjusted forecast of 4.5 percent to 5.5 percent. The Monetary Board faces the daunting task of balancing growth and inflation concerns as there is also growing apprehension that the continuous interest rate hikes to subdue the increase in prices may chip away at the momentum for economic recovery.

- For 2023, the BSP expects the inflation wave to abate and fall within the 2.5 percent to 4.5 percent band on account of weakening global demand. This target is slightly higher than its usual inflation forecast which hovers around 2.0 percent to 4.0 percent. In its latest World Economic Outlook (July WEO), the IMF raised its 2023 global inflation forecast to 5.2 percent.[1]

Dubai Crude

- Global fuel prices soared in the first half of 2022 with the benchmark Dubai Crude price reaching a high of US$118.52/bbl around the middle of March with the price remaining above the US$100/bbl mark until July before dipping in August. The massive price increases were mainly due to supply tightness arising from the Russian invasion of Ukraine which came alongside a resurgence in demand as several countries started lifting Coronavirus Disease 2019 (COVID-19)-related mobility restrictions.

- Despite the recent drop, the year-to-date average of Dubai Crude is still at US$101.45/bbl, still within the DBCC forecast of US$90-110/bbl. The benchmark price is currently 22.66 percent higher than it was at the end of 2021, although it has lately been trending downward, with the current price around US$23/bbl less (or 19% less) than it was at the 2022 peak.

- The increase in Dubai Crude price has been reflected in retail pump prices. For this calendar year, the pump price of gasoline has increased 23 times and decreased 12 times, with the year-to-date price adjustments for gasoline now at a net increase of PhP16.95/liter, while the price of diesel has increased 22 times and decreased 14 times, for a net increase of PhP36.25/liter. Nevertheless, there is reason to believe that the downward trajectory of oil prices will continue in the next few months as global demand is expected to remain sluggish, with COVID-19 lockdowns continuing in China, continuing fears for a recession in the USA and Europe, as well as the seemingly poor prospects for an imminent end to the Russian invasion of Ukraine. Further supply could arrive in the market if the USA's sanctions on Iran are lifted and this could help keep prices down. However, the token supply cuts announced by the Organization of the Petroleum Exporting Countries (OPEC) for October, are supposed to signify that the cartel is intent on stopping the downward trend in crude prices and there will always be the possibility that greater production cuts will be imposed in the coming months, thus causing more volatility and uncertainty in the price of crude. Given these, the broad DBCC forecast of US$80-100/bbl for 2023 will likely hold true.

Foreign Exchange Rate

- The peso-dollar exchange rate breached the PhP57.00/US dollar mark for the first time in September 2022, surpassing the previous record set 17 years ago at the height of the then fiscal crisis. As of 8 September 2022, the exchange rate dropped to PhP57.22/US$, equivalent to a 12.7 percent depreciation from the previous year. This is mainly due to the aggressive interest rate hikes by the US Federal Reserve (US Fed) which continued to strengthen the demand for the US dollar relative to the Philippine peso. The currency devaluations[2] are also being felt across the region with the Japanese yen (-23.5%), Korean won (-15.4%), Thailand baht (-10.3%), and Malaysian ringgit (-7.7%)

[1] From its previous forecast of 4.5 percent in its April WEO.
[2] Currency depreciations were estimated from year-ago levels as of 7 September 2022.

sinking to historic lows against the dollar. Noting that the interest hikes of the US Fed were primarily aimed at addressing runaway inflation, lower US inflation may also ease further tightening of monetary policy which have affected these currencies.

- The eight-month average exchange rate is estimated at PhP53.06/US$, exceeding the assumed range of PhP51.00 to PhP53.00 for 2022. With the recent slide of the peso, the average exchange rate is expected to dip further before rebounding in the last quarter of the year.

- Inflows of foreign exchange from overseas Filipino remittances (OFWs) are seen to support the peso given the usual influx at the onset of the holiday season. Cumulative cash remittances grew by 2.9 percent in June 2022, its fastest pace for the year. Improving revenues from travel (up by 163.3 percent) and business services (by 15.8 percent), which bring in foreign exchange, are likewise expected to help reduce the downward pressure on the local currency.

- The weakening of the peso has varying impacts on the different sectors of the economy. While it is true that peso depreciation benefits OFWs (higher exchange rate for remittances) and exporters (Philippine products become more price competitive), the peso depreciation also increases upward pressure on prices (imported goods and utility rates become more expensive), and inflates foreign debt (higher interest payments).

- For 2023 until 2024, the BSP expects the peso to settle near the high-end of the government's exchange rate assumptions of PhP51.00 to PhP55.00.[3] The higher projected exchange rate path is reflective of the recent peso depreciation, higher domestic inflation, and higher assumption for the US Fed funds rate. As a net energy importer, fuel prices in the succeeding year would also play a vital role in the valuation of the peso. Higher foreign direct investments owing to the eased foreign ownership restrictions could also help in capping off the weakness of the local currency. Approved foreign investments doubled in the second quarter of 2022, driven by approved commitments in transportation and storage (PhP14.5 billion) and manufacturing (PhP6.2 billion).

Export/Import Growth

- Preliminary trade data from the Philippine Statistics Authority (PSA) show that merchandise exports grew by 7.1 percent during the first semester of the year. Despite surpassing pre-pandemic levels with a record US$38.5 billion in the first half of 2022, export revenues appear to have slowed down amid headwinds from the country's top export markets, China and the USA. The prolonged COVID-19 lockdowns to contain the spread of the Omicron variant in China have increased uncertainty and is weighing in on consumption, especially for manufactured goods. Likewise, higher-than-expected inflation in the USA is reducing household purchasing power and softening demand.

- Meanwhile, exports of services grew by 22 percent amounting to PhP1.4 trillion pesos for the first half of the year. Most subsectors have exceeded their pre-pandemic levels already, except for travel and miscellaneous services. Despite more than doubling in the first semester, travel exports

[3] BSP Monetary Policy Report, August 2022.

are still 72.9 percent lower compared to the same period in 2019. The recovery of the travel industry will be key in supporting export performance, noting it was a major revenue earner before the pandemic.

Table 5. Philippine Exports and Imports, 2020-2022, in FOB US$ billion

Commodity Groups	2020	2021	January-June		
			2021	2022	Growth (in %)
Total Exports	65.2	74.7	36.0	38.5	7.1
Total Agro-based products	4.8	5.2	2.4	3.3	37.2
Mineral products	5.1	5.9	3.2	4.1	28.1
Manufactured goods	53.8	61.9	29.6	30.4	2.8
Total Imports	89.8	116.9	53.9	68.3	26.7
Raw Materials and Intermediate goods	36.2	47.9	21.9	26.5	21.5
Mineral fuels, lubricant and related materials	7.6	14.6	5.5	11.9	117.2
Consumer goods	15.4	18.8	9.1	10.3	13.8
Trade Balance	(24.6)	(42.2)	(18.0)	(29.8)	66.0

Source: PSA
Note: FOB is freight on board or free on board.

- The World Trade Organization (WTO) projects Asian merchandise exports to grow by 3.5 percent in 2023 but emphasizes that its estimates are less certain than usual due to uncertainties on geopolitical tensions (affecting fuel prices and key agricultural commodities) and trade disruptions (affecting supply chains). With global inflation seen to remain elevated, its effect on consumer disposable income presents a challenge to the country's outlook for exports. A slowdown in the global semiconductor industry, the country's top export commodity, is seen to persist through 2023 with revenue projected to decline by 2.5 percent due to lower sales in the consumer-related segment.

- Import demand, on the other hand, is heating up as domestic economic activities continue to pick up. Inward shipments reached a record US$68.3 billion for the first semester of the year, marking its fifteenth consecutive month of double-digit cumulative growth. Executive Order (EO) No. 171 (series of 2022), which facilitates importations of corn, coal, swine and rice through lower tariffs, is expected to raise imports further until the end of the year.

- The imports growth projection was revised from 15 percent to 18 percent in July 2022 which is closer to year-to-date growth rates. The expansions may start to ease as base effects fade but will likely remain elevated partly due to the weaker peso. Meanwhile, the exports growth projection was maintained at 7.0 percent and is consistent with preliminary trade figures as of June 2022. Based on the budget sensitivity indicators of the 2023 BESF, for every percentage point increase in the assumed growth rate of imports, the budget balance will improve by PhP6.5 billion with all the other factors remaining constant.

- Meanwhile, the WTO projects the growth in Asian merchandise imports to accelerate to 4.5 percent in 2023. Anticipating a further relaxation of pandemic restrictions, more economic activities are expected to resume at full capacity and stimulate manufacturing activities. This could lead to an increase in demand for imports noting that roughly 40 percent of the country's imports are classified as raw materials and intermediate goods. On the other hand, importations are expected to decline for the affected goods under EO No. 171 once it expires at the end of the year and the respective tariffs revert to their original rates. Moreover, the upward pressure on import values due to peso depreciation and high fuel prices are expected to gradually ease through 2023.

Fiscal Assumptions

Medium-Term Fiscal Framework (MTFF) Overview

- Last July, the DBCC presented the Marcos administration's MTFF 2022-2028. The main goal of an MTFF is to extend budgetary planning beyond the annual cycle, and to serve as an anchor for governments to commit to the set fiscal targets. The MTFF 2022-2028 contains the macroeconomic and fiscal projections for the entire six-year term of the Marcos administration.[4] It includes an overview of the current macroeconomic environment including the risks and challenges as well as the primary strategies to be undertaken under the 8-Point Socioeconomic Agenda of the Philippine Development Plan (PDP) 2023-2028. The MTFF 2022-2028 puts a strong emphasis on the link between the government's fiscal plan and its developmental goals, particularly in boosting the recovery from the pandemic, sustaining a high economic growth, promoting fiscal sustainability, and reducing poverty. As such, the Executive is urging the Legislature to formally support the adoption of its MTFF 2022-2028 through the passage of a Congressional Concurrent Resolution and to use it as a guide for subsequent legislative actions, particularly in the formulation of the annual budget and in the prioritization of reform measures.

- Under the MTFF 2022-2028, the domestic economy is expected to expand by 6.5 percent to 7.5 percent in 2022 and by 6.5 percent to 8.0 percent in 2023 to 2028. Growth will be inclusive, with poverty hitting 9.0 percent by 2028. To ensure fiscal sustainability, the national government (NG) deficit is projected to revert to its pre-pandemic ratio of around 3.0 percent of GDP by 2028 while the target for NG debt-to-GDP ratio which has now exceeded the international benchmark of 60.0 percent is to reduce it to 52.5 percent of GDP by the end of the Marcos administration. Within the six-year term, the Philippines is expected to finally reach an upper middle income country status with at least US$4,256 gross national income (GNI) per capita.

Table 6. 2022-2028 Macroeconomic Objectives

Particular	Baseline	Target
Real GDP growth	5.7% in 2021	6.5%-7.5% in 2022: 6.5%-8.0% in 2023 to 2028
Poverty incidence	18.1% in 2021	9.0% in 2028
NG deficit-to-GDP ratio	8.6% in 2021	3.0% of GDP by 2028
NG debt-to-GDP ratio	60.5% in 2021	52.5% of GDP by 2028
Country classification by income level	Lower middle income status in 2021 (US$3,704 GNI per capita)	Upper middle income country status (US$4,256 GNI per capita)

Source: MTFF 2022-2028

[4] Regular updating will be carried out every three years to account for the developments in the domestic and international economy.

- The MTFF 2022-2028 establishes a fiscal consolidation strategy that combines the adoption of both revenue enhancement and expenditure minimization measures. Revenue growth is projected to be faster than the growth in spending. The revenue and tax efforts[5] are projected to gradually rise from 15.5 percent and 14.1 percent, respectively in 2021 to 17.6 percent and 17.1 percent in 2028. Apart from expectations of improved economic performance which will widen the tax base, a combination of tax policy and tax administration reforms will be pursued to increase the government's revenue collection.

Table 7. Medium-Term Fiscal Program, FYs 2022-2028 (in billion PhP)

Particulars	2021	2022	2023	2024	2025	2026	2027	2028
	Actual	Program	Projections					
REVENUES	3,005.5	3,304.1	3,632.9	4,062.6	4,576.8	5,155.3	5,821.4	6,589.0
% of GDP	15.5	15.2	15.3	15.6	16.0	16.5	17.0	17.6
Growth Rate (%)	5.2	9.9	10.0	11.8	12.7	12.6	12.9	13.2
Tax Effort	14.1	14.5	14.6	14.9	15.4	15.9	16.4	17.1
DISBURSEMENTS	4,675.6	4,954.6	5,085.8	5,402.0	5,759.7	6,249.6	6,916.0	7,711.7
% of GDP	24.1	22.9	21.4	20.7	20.2	20.0	20.2	20.6
Growth Rate (%)	10.6	6.0	2.6	6.2	6.6	8.5	10.7	11.5
SURPLUS/(DEFICIT)	-1,670.1	-1,650.5	-1,452.9	-1,339.4	-1,182.8	-1,094.3	-1,094.6	-1,122.7
% of GDP	-8.6	-7.6	-6.1	-5.1	-4.1	-3.5	-3.2	-3.0
Memo Items:								
Nominal GDP	19,410.6	21,672.8	23,755.2	26,065.8	28,578.8	31,266.7	34,207.4	37,424.7
Infrastructure Program	1,123.6	1,199.5	1,280.6	1,397.1	1,512.0	1,713.1	2,001.0	2,375.8
% of GDP	5.8	5.5	5.4	5.4	5.3	5.5	5.8	6.3

Source: DBCC, as approved on 8 July 2022.

- Government spending, on the other hand, is projected to grow by an annual average of 7.2 percent for 2022-2028. This is slower compared to the six-year average expenditure growth prior to the pandemic (2014-2019) of 12.5 percent. The expansion of expenditures will be particularly subdued in 2023 at only 2.3 percent, before increasing moderately from 2024 to 2028. The share of spending to GDP is programmed to fall from 24.1 percent in 2021 to 20.6 percent in 2028, equivalent to a decrease of 3.5 percentage points. Nonetheless, the expenditure effort is still higher compared to the pre-pandemic period. Notable too is the government's intention to keep infrastructure spending at 5.0 percent to 6.0 percent of GDP.

2022 and 2023 Fiscal Programs

- *Revenues.* NG Revenue collection for 2022 is projected at PhP3.3 trillion, equivalent to 15.2 percent of the GDP and higher by 9.9 percent from the 2021 collection. For the first semester of 2022, total revenues grew by 15.9 percent, and exceeded the programmed amount by PhP79.1 billion. Actual revenue effort (revenue collection as a percentage of GDP) reached 16.7 percent which is already above the 15.2 percent target for this year. Note that the target revenue effort for both 2022 and 2023 are actually lower than that of the 15.5 percent actual revenue-to-GDP ratio recorded in 2021.

[5] Revenue effort is total revenue collection as a percentage of GDP while tax effort is tax collection as percentage of GDP. Expenditure effort is the proportion of expenditure to the GDP.

Table 8. NG Revenue Performance, First Semester 2021-2022 (in billion PhP)

	Actual First Sem		Growth		2022 First Sem Program*	Variance (Actual vs Program)
	2021	2022	2020- 2021	2021-2022		
Total Revenues	1,490.4	1,727.5	2.5	15.9	1,648.4	79.1
Ratio to GDP (%)	*16.3*	*16.7*				
Tax Revenues	1,343.5	1,541.2	10.3	14.7	1,538.4	2.7
Ratio to GDP (%)	*14.7*	*14.9*				
BIR	1,031.8	1,132.5	7.9	9.8	1,164.8	-32.3
BoC	301.7	396.7	19.2	31.5	360.7	36.0
Other Offices	9.9	11.9	21.5	20.2	12.8	-0.9
Non-Tax Revenue	146.9	186.3	-37.7	26.8	110.0	76.3
BTr income	81.6	104.1	-55.5	27.6	52.8	51.3
Fees and Charges	21.9	23.5	56.6	7.3	19.9	3.6
Privatization	0.2	0.1	-30.6	-50.0	0.1	0.0
Malampaya	10.0	12.0	12.4	20.0	na	na
Other Non-Tax	33.2	46.7	13.5	40.7	37.2	9.5

**Based on program set on 24 May 2022 by the DBCC.*
Source: Bureau of the Treasury (BTr) Cash Operations Report

- Revenue performance was pulled up in particular by the Bureau of Customs (BoC) which collection grew by 31.5 percent. The BoC surpassed its target by PhP36 billion and this was largely due to higher tax collection from petroleum products which benefited from the higher oil prices, the depreciation of the peso, and the implementation of the fuel marking program. The agency's revenue collection on petroleum products increased by 45.9 percent, equivalent to PhP44.9 billion. Its collection from rice import tariffs likewise grew by 14.0 percent to PhP8.4 billion in the first five months of 2022.

- In contrast, the Bureau of Internal Revenue (BIR) fell short of its target collection by PhP32.3 billion. This is partly due to the availment of businesses of their input value-added tax (VAT) credit in the first quarter. Under the Tax Reform for Acceleration and Inclusion (TRAIN) Law, starting January 1, 2022, all input tax on purchases of capital goods shall already be allowed to be claimed outright upon purchase/payment and shall no longer be subject to amortization. This eroded the VAT collection of the BIR. Moreover, lower revenue collection was noted in various industries such as automobile, cement, construction, non-essential, petroleum, power and real estate. In the 16 August 2022 hearing of the Senate Committee on Ways and Means, the BIR admitted that it has yet to determine what led to the negative revenue performance of these industries.

- For 2023, NG revenue is expected to reach PhP3.633 trillion, 10 percent higher than the programmed revenue for this year. The growth in revenues is hinged on the assumption that the economy will perform strongly and that key revenue enhancing measures will be passed and implemented. Any considerable deviation from the growth forecast may adversely affect the revenue outlook. Based on the sensitivity analysis of the proposed 2023 National Budget, a one percent decline from the 2023 GDP target translates to a PhP33.7 billion reduction in revenues.

Table 9. Revenue Program: 2022 Revised Program vis-à-vis 2023 Proposed (in PhP billion)

Particulars	Actual	Program a/	Proposed b/	Annual Growth (%)	
	2021	2022	2023	2021-2022	2022-2023
Revenues	3,005.5	3,304.1	3,632.9	9.9	10.0
Ratio to GDP	*15.5*	*15.2*	*15.3*		
Tax Revenues	2,742.7	3,139.6	3,464.1	14.5	10.3
Ratio to GDP	*14.1*	*14.5*	*14.6*		
BIR	2,078.1	2,392.6	2,670.4	15.1	11.6
BoC	643.6	721.5	765.6	12.1	6.1
Other Offices	21.0	25.5	na	21.4	na
Non-Tax Revenue	262.5	164.0	168.3	-37.5	2.6
BTr Income	125.3	63.4	58.3	-49.4	-8.0
Fees and Charges	31.7	41.7	49.0	32.0	17.5
Others	105.5	na	61.1	na	na
Privatization	0.322	0.5	0.5	55.3	0.0

Source: BTr Cash Operations Report
a/ Program approved by the DBCC on 24 May 2022
b/ Program approved by the DBCC via Ad Referendum

- *Disbursements.* Government spending is expected to slow down from a growth rate of 10.6 percent in 2021 to 6.0 percent growth in 2022. For the first half of the year, NG disbursements rose by 8.9 percent to PhP2.4 trillion from PhP2.2 trillion for the same period in 2021. This, however, is still lower by 3.0 percent or by PhP75.4 billion compared to the program spending of PhP2.47 trillion for the period. The underspending is attributed by the government to the election ban which derailed the implementation of some of its programs and projects from March 25 to May 8. This affected the government disbursement on Capital Outlays (CO), particularly on Infrastructure and Other CO, and to a lesser extent the Maintenance and Other Operating Expenses (MOOE). Spending on Infrastructure and Other CO was lower by PhP51.4 billion compared to program spending.

- The two other biggest contributors to government underspending were Capital Transfers to LGUs at PhP23.5 billion and Equity at PhP10.2 billion. In the case of the former, the entry of the new administration delayed to July 2022 the release of the Special Shares of LGUs in the Proceeds of National Taxes. For the latter, the PhP10 billion equity infusion for the BSP was yet to be credited as of June due to the delayed opening of the Modified Disbursement Scheme to record the transfer of funds.

- Comparing actual spending between 2021 and 2022, two expenditure classes recorded big declines namely Subsidy and Equity which both provide funding support for government corporations. In 2022, the Subsidy for government corporations amounted only to PhP44.7 billion—way below the PhP88.3 billion spending in 2021, as the Subsidy for the Philippine Health Insurance Corporation (PhilHealth) will only be credited during the second half of the year. Meanwhile the PhP46.0 billion in Equity disbursement for 2021 was due to the one-time release of capital infusion for government financial institutions in February 2021 to cover funding for credit assistance and lending programs under the Bayanihan II Act.

Table 10. NG Disbursements for the Period January to June, 2021 and 2022 (in billion PhP)

Expenditure Class	January to June				
	2021 Actual	2022 Program	2022 Actual	Variance Actual vs. Program	Growth rate (%)
CURRENT OPERATING EXPENDITURE	1,615.5	1,784.9	1,794.7	9.9	11.1
Personnel Services	593.8	656.5	666.4	9.9	12.2
MOOE	372.3	399.5	393.2	-6.2	5.6
Subsidy	88.3	52.5	44.7	-7.8	-49.4
Allotment to LGUs	337.0	413.8	414.5	0.7	23.0
Interest Payments	208.5	253.1	257.2	4.1	23.3
Tax Expenditure Fund	15.6	9.4	18.7	9.3	20.0
CAPITAL OUTLAYS	584.2	680.6	595.4	-85.2	1.9
Infra and Other CO	426.7	529.3	477.9	-51.4	12.0
Equity	46.0	10.9	0.7	-10.2	-98.5
Capital Transfers to LGUs	111.5	140.3	116.8	-23.5	4.7
NET LENDING	6.8	11.7	11.6	-0.1	70.3
GRAND TOTAL	**2,206.4**	**2,477.1**	**2,401.7**	**-75.4**	**8.9**

Source: NG Disbursement Performance as of June 2022

- For 2023, the projected NG cash disbursement is set at PhP5.1 trillion which is merely a 2.6 percent growth from the programmed spending in 2022. At 21.4 percent of the country's GDP, the 2023 projected cash disbursement is also lower compared to this year's expenditure effort. In particular, spending for CO will drop to PhP1.18 trillion in 2023 from the PhP1.24 trillion program in 2022 while Current Operating Expenditures will rise to PhP3.87 trillion in 2023 from PhP3.67 trillion in 2022. The increase in disbursement for Current Operating Expenditures is due to higher Personnel Services requirements arising from the implementation of the fourth and last tranche of the Salary Standardization Law V.

- However, clarity must be sought on the real spending plan of the government with regard to infrastructure as there seems to be a discrepancy between the figures stated in the 2023 BESF and in the MTFF 2022-2028 as approved by the DBCC. In the BESF, spending for infrastructure in 2023 will amount to only PhP1.180 trillion and consequently, the investment to GDP ratio will go down substantially to 5.0 percent from 5.5 percent in 2022. In the MTFF 2022-2028, the amount is PhP1.280 trillion[6] and the percentage to GDP is at 5.4 percent. Empirical evidence show that public investment in infrastructure gives the highest multiplier value, making it the most effective in increasing output compared to other types of public spending. Infrastructure projects also have immense benefits in terms of improving the lives of ordinary Filipinos.

[6] Per MTFF 2022-2028, infrastructure program projections pertain to disbursements from NG infrastructure, infrastructure subsidy/equity to GOCCs, and transfers to LGUs intended for infrastructure.

Table 11. NG Cash Disbursements, 2021-2023 (in billion PhP)

Particulars	2021 Actual	2022 Program	2023 Projection	Growth rate (%) 2022 vs. 2023
CURRENT OPERATING EXPENDITURES	3,493.9	3,679.0	3,873.0	5.3
Personnel Services	1,288.6	1,335.4	1,533.6	14.8
MOOE	882.9	818.3	833.3	1.8
Subsidy	184.8	172.3	174.6	1.3
Allotment to LGUs	671.4	825.9	734.8	-11.0
Interest Payments	429.4	512.6	582.3	13.6
Tax Expenditures	36.7	14.5	14.5	0
CAPITAL OUTLAYS	1,163.0	1,246.9	1,184.0	-5.0
Infrastructure and Other CO	895.1	979.3	969.8	-1.0
Equity	47.5	12.2	0.8	-93.5
Capital Transfers to LGUs	221.3	255.4	213.4	-16.4
NET LENDING	17.9	28.7	28.7	0
GRAND TOTAL	**4,675.6**	**4,954.6**	**5,085.8**	**2.6**
Percent of GDP	**24.1**	**22.9**	**21.4**	
Notes:				
Infrastructure Program (Disbursements)	1,123.6	1,199.5	1,180.2	
Percent of GDP	5.8	5.5	5.0	
Nominal GDP	19,410.6	21,672.8	23,755.2	

**Figures are rounded off to nearest one decimal point.*
Source: 2023 BESF Table B.20

- *Deficit.* The fiscal deficit for 2022 is pegged at 7.6 percent of the GDP. In the first semester, the deficit narrowed to PhP674.2 billion from PhP716.1 billion in the same period in 2021. This means that the government should not incur more than PhP976.3 billion of deficit in the second half of the year so as not to exceed the full-year limit. The projected fiscal deficit for 2022 accounts for 6.5 percent of GDP, an improvement from the ratio of 7.8 percent in the same period in 2021. For 2023, the target is to bring the ratio down further to 6.1 percent by raising revenues and cutting expenditures relative to GDP.

- *NG Debt.* Based on the MTFF 2022-2028, the NG debt-to-GDP ratio in 2022 is set at 61.8 percent, slightly higher than the 60.5 percent in 2021. The ratio was 39.6 percent in 2019, but grew significantly as the government was compelled to borrow to finance its pandemic response. As of end-July 2022, the total NG outstanding debt stood at a record high of PhP12.89 trillion, 8.8 percent higher than the same period level in 2021. This is equivalent to 62.1 percent of GDP which exceeds both the target for the year and the 60 percent threshold that multilateral lenders consider as sustainable for developing economies like the Philippines.

- A source of comfort, as pointed out by the Department of Finance (DoF), is that bulk of the debt (68.5%) are domestic borrowings while 31.5 percent are sourced externally. External borrowing is usually associated with vulnerabilities (i.e., foreign exchange risks) that lead to debt crises. There are observations though that with the current environment of increasing financial integration and open capital accounts, the traditional distinction between external and domestic debt makes less sense (United Nations Conference on Trade and Development [UNCTAD], 2008).[7]

[7] https://unctad.org/system/files/official-document/osgdp20083_en.pdf.

Table 12. NG Outstanding Debt, End–July 2022 vis-à-vis End-June 2021 (in billion PhP)

	End-June 2021	End-June 2022	Y-O-Y Growth (in %)
NG Direct Debt	11,610.5	12,887.9	11.0
Domestic Debt	8,119.5	8,832.2	8.8
Loans	540.2	0.156	-100.0
Debt Securities	7,579.4	8,832.02	16.5
External Debt	3,490.9	4,055.7	16.2
Loans	1,472.0	1,916.7	23.4
Debt Securities	2,018.9	2,239.0	10.9
NG Contingent Debt	444.3	407.9	-8.2
Domestic	242.6	186.7	-23.1
External	201.6	221.3	9.8

Source: BTr

- Foreign debt increased by 16.2 percent year-on-year partly due to the depreciation of the Philippine peso against the US dollar. Meanwhile, the NG contingent or guaranteed obligations amounted to PhP407.9 billion, PhP5.93 billion or 8.2 percent lower than the same period in 2021. The decrease in guaranteed debt was primarily due to the net repayment of both domestic and external guarantees.

- For 2023, the NG debt-to-GDP ratio is expected to decline to 61.2 percent from 61.8 percent in 2022. According to the DoF, in order to outgrow the debt, the economy needs to grow by at least six percent over the next five to six years.[8]

- *NG Financing.* To finance the total public sector deficit in 2023, the government plans to borrow PhP2.207 trillion, 25.1 percent of which will come from external sources while 74.9 percent will be sourced domestically. With the gradual annual decline in the NG deficit, the growth of total financing is also expected to decline, by 1.2 percent this year and more aggressively, by 12.0 percent next year.

Table 13. Government Financing Program 2021-2023 (in billion PhP)

Particulars	2021 Actual	2022 Program	2023 Proposed
Total Gross Financing	**2,579.2**	**2,211.8**	**2,207.0**
External (Gross)	568.7	561.5	553.5
Less: Amortization	237.2	133.2	122.5
Domestic (Gross)	2,010.5	1,650.3	1,653.5
Less: Amortization	89.9	3.4	2.0
Net Financing	2,252.2	2,075.2	2,082.5
External (Net)	331.5	428.3	431.0
Domestic (Net)	1,920.7	1,646.9	1,651.5

[8] Based on an estimate of the DoF (https://www.bworldonline.com/top-stories/2022/04/22/443882/phl-needs-to-grow-over-6-to-cut-debt/).

Change in Cash	582.1	424.7	629.6
Gross Financing Mix (in %)	100.0	100.0	100.0
Foreign	22.0	25.0	25.0
Domestic	78.0	75.0	75.0
Total Net Financing Requirement	**1,670.1**	**1,650.5**	**1,452.9**
Growth Rate (%)	21.8	-1.2	-12.0

Source: 2023 BESF

- *Consolidated Public Sector Deficit.* In 2021, the consolidated public sector deficit grew by 9.9 percent amounting to PhP1.073 trillion, equivalent to a ratio to the nominal GDP of 5.5 percent. For 2022, the public sector deficit is projected to decline by 2.3 percent primarily due to an expected decline in the deficit of the Monitored Non-Financial Government Corporations (MNFGCs). Its ratio to the nominal GDP is expected to go down to 4.8 percent. For 2023, the public sector deficit is likewise projected to go down to PhP964.0 billion, equivalent to 4.1 percent of the nominal GDP.

Table 14. Consolidated Public Sector Financial Position, 2021-2023 (in PhP billion)

Particulars	2020 Actual	2021 Actual	2022 Program	2023 BESF
Public Sector Borrowing Requirement	-1,350.8	-1,604.3	-1,631.6	-1,404.9
National Government	-1,371.4	-1,670.1	-1,650.5	-1,452.9
Growth Rate	*110.9*	*18.8*	*1.7*	*-13.9*
Monitored Non-Financial Government Corporations (MNFGCs)	-1.5	43.7	-9.7	19.4
Adjustments in Net Lending and Equity to GOCCs	22.1	22.1	28.7	28.7
Other Public Sector	374.4	531.3	583.5	440.9
SSSS/GSIS/PHIC	84.1	191.2	115.2	165.3
Bangko Sentral ng Pilipinas	-7.9	27.2	1.0	1.0
Government Financial Institutions (GFIs)	25.9	28.3	36.1	31.4
Local Government Units (LGUs)	272.3	284.6	431.1	243.2
Consolidated Public Sector Surplus/(Deficit)	-976.4	-1,073.0	-1,048.1	-964.0
Growth Rate	*279.0*	*9.9*	*-2.3*	*-8.0*
Ratio to GDP (%)	*-5.4*	*-5.5*	*-4.8*	*-4.1*

Source: 2023 BESF

Dimensions of the Proposed 2023 National Budget

The proposed 2023 National Budget is the first expenditure program of President Marcos Jr. As such, it is supposed to embody the administration's priorities as manifested in its 8-Point Socioeconomic Agenda. For the near term, the agenda aims to address the adverse impact of high inflation and the socioeconomic scarring arising from the pandemic. It also aims to ensure the country's sound macroeconomic fundamentals.

The proposed next year's National Budget will authorize the NG to spend about PhP5.3 trillion. While this is PhP244.4 billion or 4.9 percent higher than this year's (2022) budget, such growth is lower compared to its growth of 9.2 percent in 2022. Likewise, the expenditure-to-GDP ratio of 21.4 percent for 2023 is lower than the ratio of 22.9 percent for 2022. Note that a higher budget rests on the assumption that the economy (i.e., GDP) will grow by 6.5 percent to 8.0 percent. In other words, in 2023, the government would have to do more to enable the economy to reach its high growth target while having a smaller budget (vis-à-vis the economy). It plans to do this by ramping up revenue and at the same time, increase its spending efficiency. By doing so, the Marcos administration strengthens its commitment to pursue its fiscal consolidation program.

As in the previous national budgets, the proposed 2023 expenditure program prioritizes Social and Economic Services in support of programs that would address issues in the agriculture sector, increase human capital, and enhance infrastructure to sustain the economy's growth. In 2022 and 2023, the allocation for both sectors accounts for around 68 percent of the total expenditure program. Much of the PhP244.4 billion increase in the proposed 2023 budget is drawn from the growth of these two services. Social Services will account for 39.3 percent of the total spending program while economic services will account for 29.0 percent. The Economic Service Sector has a proposed budget of PhP1.5 trillion, higher by 2.3 percent than the current year's programmed amount.

Table 15. Expenditure Program by Sector, 2021-2023 (in PhP billion)

Sector	2021 Actual	2022 GAA	2023 Proposed	Share (%)			Growth Rate (%)	
				2021	2022	2023	2021-2022	2022-2023
Primary Expenditure	4,153.5	4,482.3	4,657.10	90.3	89.2	88.4	7.9	3.9
Economic Services	1,274.6	1,494.1	1,528.50	27.7	29.7	29.0	17.2	2.3
Social Services	1,816.6	1,932.4	2,070.70	39.5	38.5	39.3	6.4	7.2
Defense	212.4	221.1	250.7	4.6	4.4	4.7	4.1	13.3
General Public Services	849.9	834.7	807.2	18.5	16.6	15.3	-1.8	-3.3
Net Lending	17.9	28.7	28.7	0.4	0.6	0.5	60.3	0.0
Debt Service Interest Payments	429.4	512.6	582.3	9.3	10.2	11.0	19.4	13.6
Total NG Expenditure	4,600.80	5,023.60	5,268.00	100.0	100.0	100.0	9.2	4.9

Source: 2023 BESF Table B.5

The share of primary expenditure (i.e., total expenditure net of lending and debt service interest payments) to the total budget is projected to continue decreasing—from 90.3 percent in 2021 to 88.4 percent in 2023. In contrast, the share of debt service interest payments will increase from 9.3 percent in 2021 to 11.0 percent. This is consistent with the rising trend in the level of NG debt. The amount for debt service interest payments is likewise set to grow faster (13.6%) than the primary expenditure (3.9%) in 2023. The implication is that if the government intends to further beef up spending on infrastructure, health and education, it will have to: (1) look for new sources of revenue to finance these priority sectors in order to rely less on borrowing; and to (2) commit to expenditure reform to make fiscal space for continuing priority programs.

ALLOCATION BY DEPARTMENTS (TOP 10 DEPARTMENTS)

Apart from being mandated by the 1987 Constitution, the Education Sector which includes the Department of Education (DepEd), State Universities and Colleges (SUCs), Commission on Higher Education (CHED), and Technical Education and Skills Development Authority (TESDA) rightfully gets the topmost priority in terms of budgetary allocation due to the need to address the learning losses experienced by Filipino students in the two years of school closures and internet-based learning. The Department of Public Works and Highways (DPWH) will get the second highest budgetary allocation for 2023 at PhP705.6 billion as the Marcos administration has decided to continue with the previous administration's aggressive infrastructure program, only this time revising the then Build, Build, Build Program to the Build, Better, More Program. Healthcare (Department of Health) and social services (Department of Social Welfare and Development) will also be prioritized in terms of budgetary funding as they are crucial in reducing economic vulnerability and mitigating the COVID-19 pandemic scarring.

To address high inflation, the Marcos administration will prioritize food security and improve transportation which are reflected in the substantial increase in funding for both the Department of Agriculture (DA) and the Department of Transportation (DOTr). Under the 2023 National Expenditure Program (NEP), the DA's budget will rise by 42.3 percent to PhP172.0 billion from PhP120.9 billion. In the case of the DOTr, despite having a 2021 disbursement rate of only 41.5 percent, its 2023 budget will jump by 147.7 percent to PhP145.4 billion.

Table 16. Top 10 Departments, 2022 GAA vs 2023 Proposed Budget (in billion PhP)

Department	2022 GAA		2023 Proposed		Growth Rate
	Amount	Rank	Amount	Rank	
Education (includes DepEd, SUCs, CHED and TESDA)	788.5	1	852.8	1	8.2
Department of Public Works (DPWH)	776.0	2	705.6	2	-9.1
Department of Health (includes DoH and PhilHealth)	193.7	4	217.8	3	12.4
Department of Social Welfare and Development (DSWD)	194.4	3	185.3	4	-4.7
Agriculture (includes DA, DAR, PCIC, DA-attached corporations)	120.9	5	172.0	5	42.3
Department of Transportation (DOTr)	58.7	7	145.4	6	147.7
Department of National Defense (DND)	91.8	6	101.9	7	11.0
Department of the Interior and Local Government (DILG)	38.5	9	34.8	8	-9.5
Labor and Employment (includes DOLE and DMW)	44.6	8	34.4	9	-23.0
Department of Science and Technology (DOST)	19.7	10	19.3	10	-2.1
TOTAL	**2,326.9**		**2,469.3**		**6.1**

Note: Figures are net of Personnel Services requirements.

Source: Department of Budget and Management (DBM) Presentation for the DBCC Hearing dated 26 August 2022

ALLOCATION BY SECTORS

Economic Services

The proposed 2023 budget for Economic Services amounts to PhP1.5 trillion which is just 2.3 percent higher than its budget for 2022. Spending on Economic Services includes infrastructure spending which the present administration intends to keep at 5.0 percent to 6.0 percent of GDP over the medium term. Rightly so as public investment on infrastructure boosts the productivity of private capital and labor, leading to higher output. A huge chunk (a little more than 50%) of the budget for Economic Services is accounted for by communications, roads and other transport which will have an increment of PhP33.8 billion. Given the pressing need to address the high costs of goods and services, it is imperative that infrastructure be improved to facilitate the movement of such, especially food, from farm/market to end consumers. While most of the budget for the Economic Service Sector is allotted to communications, roads and other transport (PhP820 billion), the real gainer would be the agriculture sub-sector with a proposed budget of PhP142.0 billion, PhP28.3 billion or 25 percent more than this year's level. The DA is currently headed by no less than the President.

Table 17. Economic Services Expenditure Program, 2021-2023

Particulars	in PhP billion			Share to Total			Growth	
	2021	2022	2023	2021	2022	2023	2022	2023
Agriculture and Agrarian Reform	138.9	144.8	200.4	10.9	9.7	13.1	4.3	38.4
Natural resources and Environment	27.0	27.1	25.8	2.1	1.8	1.7	0.2	-4.8
Trade and Industry	10.6	12.4	10.6	0.8	0.8	0.7	17.7	-14.7
Tourism	5.1	5.8	5.9	0.4	0.4	0.4	13.6	1.3
Power and Energy	14.9	14.5	14.5	1.2	1.0	0.9	-2.6	0.2
Water Resources Development and Flood Control	87.2	103.4	93.7	6.8	6.9	6.1	18.6	-9.4
Communications, Roads, and Other Transport	682.6	786.0	819.8	53.6	52.6	53.6	15.2	4.3
Other Economic Services	39.9	40.0	46.4	3.1	2.7	3.0	0.2	16.1
Subsidy to LGUs	268.5	360.1	311.4	21.1	24.1	20.4	34.1	-13.5
TOTAL	**1,274.6**	**1,494.1**	**1,528.5**	**100.0**	**100.0**	**100.0**	**17.2**	**2.3**

Source of basic data: 2023 BESF Table B.5.a

The combined budget of the Agriculture and Agrarian Reform Subsectors will be PhP200 billion, PhP55.6 billion or 38.4 percent more than this year's level. This also accounts for 13.1 percent of the entire Economic Services expenditure program. This is in line with the government's 8-Point Socioeconomic Agenda, which includes improving food security to protect consumer purchasing power. The Agriculture Sector will adopt an integrative food and nutrition security paradigm that is driven by the resilience of foods systems, improved infrastructure, increased agricultural productivity, modernizing the industry, assurance of food safety, and accelerated land distribution. The budget for the DA's National Rice Program is set to double from this year's level to PhP30.5 billion. This is on top of the PhP10.0 billion Rice Competitiveness Enhancement Fund (RCEF).

Likewise, the proposed 2023 budget of the National Food Authority (NFA) will increase by 71.4 percent to PhP12.0 billion, for the implementation of the Rice Buffer Stocking Program for calamities and times of production shortfalls. Notably, the budgets for other vital commodities such as corn

(PhP5.2 billion), livestock (PhP5.2 billion), fisheries (PhP6.3 billion), high value crops (PhP2.0 billion), dairy industry development program (PhP357.2 million), and coconut and palm oil (PhP1.1 billion) that could potentially boost the income of farmers and fisherfolks are disproportionately lower than that for rice. In comparison, the government intends to spend PhP5.9 billion for agricultural machineries and equipment; PhP1.4 billion for research and development (R&D) under the Department of Science and Technology (DOST); and PhP1.7 billion for the Agricultural Competitiveness Enhancement Fund (ACEF). Meanwhile, the government will invest a total amount of PhP1.0 billion in cold examination facilities to verify commodities entering the country comply with the national standards and regulations to better prevent smuggling of agricultural commodities and to prevent the entry of agriculture and fishery related pests and diseases.

Furthermore, agricultural producers will be supported by a proposed 2023 budget of PhP2.8 billion for accessible and affordable credit to farmers and fisherfolk, PhP4.5 billion for agricultural insurance, PhP1.8 billion for the Special Area for Agricultural Development Project (e.g., production, livelihood, marketing and enterprise development), and PhP1.0 billion for farmer and fisherfolk fuel assistance program. Finally, the government will allocate PhP15.8 billion to speed up land distribution and development and sustainability of the Agrarian Reform Beneficiaries' (ARF) programs. The fact that the proposed budgets for these other important programs are dwarfed by the share going to the rice program could put into question the government's commitment to the agriculture sector's overall resilience, competitiveness, and sustainability.

Meanwhile, PhP48.7 billion was cut from the allocation of Subsidy to local government units (LGUs) and as a result, its share to the total allotment for Economic Services went down from 24.1 percent this year to 20.4 percent for 2023. This is on account of the smaller amount for national tax allotment (NTA) and the Bangsamoro Autonomous Region in Muslim Mindanao (BARMM), which decreased by PhP48.6 billion and PhP140.4 million, respectively. The cut in the amount of NTA was due to lower revenues raised in 2020. In computing for the NTA, the Department of Budget and Management (DBM) uses the third year as base year prior to distribution, so that the NTA for 2023 is measured against revenues raised in 2020.

Social Services

The overall goal of the administration's 8-Point Socioeconomic Agenda is to reinvigorate job creation and reduce poverty by bringing the economy back to a high growth path. Poverty incidence is expected to decline to 9.0 percent of the population in 2028 from 18.1 percent in 2021. This aspiration, however, is set against a backdrop of 6.0 percent unemployment rate, 37.8 percent informal employment, rising inflation, low productivity in the agriculture sector, where majority of the poor are engaged, and high exposure to natural and man-made shocks, among other socio-economic challenges that characterize the Philippine economy.

To address such vulnerabilities, the government aims to ensure the unimpeded and adequate delivery of social services, such as health, education and social protection. Social Services, with an allocation of PhP2.07 trillion, is a top priority among sectors in the proposed 2023 National Budget. It is equivalent to 39.3 percent of the National Budget and 9.0 percent of the projected GDP. Allocation for Social Services has been growing steadily but at a slower rate of 7.2 percent when compared to the Defense Sector with 13.3 percent budget growth. Budgets of all sub-sectors under Social Services will grow except for Housing and Community Development and Subsidy to LGUs which will suffer budget cuts of 46.5 percent and 13.5 percent, respectively. Education, Culture and Manpower Development consistently receives the largest share, followed by Social Security, Welfare and Employment, and Health, which all belong to the priority sectors of the administration. Notably however, spending for Health as the country recovers from the pandemic needs further boost, as its proposed 2023 budget is still lower than last year's actual spending.

Table 18. Expenditure Program by Social Services Subsector, 2021-2023

Particulars	in PhP billion			Share to Total (%)			Growth (%)	
	2021 Actual	2022 GAA	2023 Proposed	2021	2022	2023	2022	2023
SOCIAL SERVICES	**1,816.6**	**1,932.4**	**2,070.7**	**39.5**	**38.5**	**39.3**	**6.4**	**7.2**
Education, Culture and Manpower Development	777.5	814.5	904.9	16.9	16.2	17.2	4.8	11.1
Health	316.6	279.5	308.3	6.9	5.6	5.9	(11.7)	10.3
Social Security, Welfare and Employment	425.9	446.5	520.7	9.3	8.9	9.9	4.8	16.6
Housing and Community Development	9.8	7.7	4.1	0.2	0.2	0.1	(21.2)	(46.5)
Land Distribution (ARF)	-	0.1	0.1	-	0.0	0.0	-	-
Other Social Services	3.0	3.4	3.4	0.1	0.1	0.1	15.6	0.1
Subsidy to LGUs	283.9	380.7	329.2	6.2	7.6	6.2	34.1	(13.5)

Source of basic data: 2023 BESF Table B.5

<u>*Education*</u>

The government aims to safely revert to face-to-face education and address learning gaps arising from the pandemic while addressing access and equity as well. The DepEd will receive the largest part of the education budget at 78.53 percent amounting to PhP710.66 billion. For higher education, the SUCs will receive 10.80 percent of the education budget or PhP97.75 billion and the CHED will receive 3.40 percent of the education budget or PhP30.7 billion. The TESDA will receive 1.51 percent or PhP13.71 billion.

To fully harness different modes of learning and improve quality, the DepEd is allocated PhP19.4 billion for Flexible Learning Options which will be used for the development, reproduction, and delivery of learning materials or blended learning resources. As teachers are an important determinant of quality, teacher training is allotted PhP778 million while PhP7.1 billion will be provided for undergraduate, masters and doctorate scholars of the Science Education Institute. The DepEd is also allotted PhP8.9 billion for the Computerization Program. To improve access and equity, the Alternative Learning System (ALS) of DepEd is allotted PhP562 million to cater to out-of-school youth, and Last Mile Schools will receive PhP1.5 billion to improve access in isolated and disadvantaged areas. The Universal Access to Quality Tertiary Education will be allotted PhP47.4 billion to subsidize higher and technical-vocational education.

As a whole, it should be noted that while public expenditure on education is now hitting international benchmarks with the country allocating 3.84 percent of its GDP (based on 2023 GDP low projection) on education programs and 17.2 percent with regard to percentage of total public expenditure to education, it is actually coming from decades of underspending and a low starting baseline. In fact, among all 2018 Programme for International Student Assessment (PISA) participating countries, the Philippines' cumulative expenditure per student from age 6 to 15 years was the lowest at US$8,474 and is less than one-tenth the Organisation for Economic Co-operation and Development (OECD) average. An earlier assessment by the World Bank and the Australian Aid said that the Philippines would require more than 6.0 percent of its GDP to implement a comprehensive package of quality improvements for basic education alone. It is particularly important that government increase the budget for alternative learning system and the budget for teacher training.

Health

The COVID-19 pandemic has magnified the necessity for a stronger health care system. The administration's socio-economic agenda aims to ramp up vaccination and uptake of booster doses for vulnerable populations, strengthen surveillance and laboratory capacity for improved pandemic preparedness, implement reforms pursuant to the Universal Health Care (UHC) Act, and expand the delivery of essential nutrition services. A 10.3 percent budget increase or PhP308.3 billion has been allocated for the health sector. Of this amount, the DoH will receive PhP196.1 billion, a 4.1 percent increase (PhP7.7 billion) from the current year's level. Meanwhile, the PhilHealth's budget will increase by 25.3 percent to PhP100.2 billion to help facilitate the implementation of the UHC. The Miscellaneous Personnel Benefits Fund (MPBF) will likewise increase to PhP2 billion from PhP637.5 million to help fill and create authorized positions, support the Personnel Services cost for the upgrading of faculty positions, and cover the deficiencies in the allowances, benefits and salaries of healthcare workers.

Among the spending priorities are the procurement and allocation of drugs, medicines and vaccines (PhP29.1 billion), medical assistance to indigent and financially incapacitated patients (PhP22.4 billion), and public health emergency benefits/allowance for health care and non-health care workers (PhP20 billion). To better improve health care and prepare for future outbreaks, investment in R&D is of utmost importance. However, the proposed allocation for R&D is 33.4 percent lower (PhP1.2 billion) than the current year's level. Moreover, while the government will allot PhP23 billion to the Health Facilities Enhancement Program (HFEP)[9] for the construction and rehabilitation of healthcare facilities, budgetary support to specialized hospitals will be subjected to deep cuts. In particular, the proposed budget for the Lung Center of the Philippines (LCP) will decrease by 7.9 percent, National Kidney and Transplant Institute (NKTI) by 22.2 percent, Philippine Children's Medical Center (PCMC) by 22.9 percent, and Philippine Heart Center (PHC) by 6.4 percent. It would be prudent to spare these hospitals of budgetary cuts as their patient inflow expands every year. Overall, the proposed health expenditures for next year account for 5.9 percent of the National Budget or 1.3 percent of the projected GDP for 2023, much lower than suggested target spending of at least 5.0 percent of GDP[10] for progressing towards UHC.

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[9] HFEP will fund the procurement of new medical equipment as well as the construction and rehabilitation of government's health care facilities, with priority in the UHC sites and geographically isolated and disadvantaged areas (GIDAs).

[10] Mcintyre D, Meheus F, Røttingen JA. (2017). What level of domestic government health expenditure should we aspire for universal health coverage? Health Econ Policy Law. 12(2):125-137. doi:10.1017/S1744133116000414. PMID: 28332456.

Labor and Employment

Over the medium term, the government intends to focus on creating more quality and green jobs. Retooling, reskilling and effective job facilitation processes will be pursued to boost the employability of jobseekers. However, the budget of the Department of Labor and Employment (DOLE) will be halved from PhP49.3 billion to PhP24.5 billion while the newly-created Department of Migrant Workers (DMW) will receive a PhP15.2 billion budget. The budget for the Employment Facilitation Program and Workers' Protection and Welfare Program will also be slashed by 13.5 percent and 37.1 percent, respectively. This reduction may be attributed to the transition of six DOLE agencies[11] to DMW, as well as the implementation of the Mandanas-Garcia ruling, which devolved some programs, activities and projects to LGUs.[12]

When combined, the budget of these two agencies will amount to PhP39.7 billion, 19.5 percent lower than the current year's level. Spending priorities in the labor sector are the *Tulong Panghanapbuhay sa Ating* Disadvantaged/Displaced Workers (TUPAD) Program (PhP14.9 billion), Emergency Repatriation Program (PhP10 billion) and DOLE Integrated Livelihood Program (PhP2.5 billion). To improve the delivery and effectiveness of these programs, prevent excessive and multiple payments, and ensure that benefits will reach the intended beneficiaries, sufficient internal control and validation measures must be put in place, as recommended by the Commission on Audit (COA). Labor market interventions to improve the income security of Filipinos should be evaluated and recalibrated to address issues such as high cost per generated employment, low coverage of identified beneficiaries, and transitory and short-term employment impact, as found by various studies over the years of the Philippine Institute for Development Studies (PIDS).

Moreover, there may be a need for the government to explain its medium-term targets for unemployment. Based on the 8-Point Socioeconomic Agenda as stated in the MTFF 2022-2028, the government aims to reduce the unemployment rate from about 8 percent in 2021 to a range of 4.0 percent to 5.0 percent in 2028 while the percentage of wage and salaried workers in private establishments to total employed workers is projected to increase from 48 percent in 2021 to around 53 percent to 55 percent in 2028. These targets are rather conservative given that in 2019, prior to the pandemic, the unemployment rate was already at a low of 5.1 percent while wage and salary workers already comprised 64.7 percent of the employed labor force during the said year. To substantially reduce poverty, it is essential to address the jobless rate, as labor is oftentimes the only asset of the poor. The quality of jobs is also important, as reflected in the formality, productivity and remuneration of workers, among other considerations. Reducing in-work poverty hinges on removing constraints to gainful employment in both supply side (better education and skills) and demand side (better jobs).

[11] About six DOLE agencies will transition to the DMW, namely: Philippine Overseas Employment Administration (POEA); Philippine Overseas Labor Offices (POLOs); International Labor Affairs Bureau (ILAB); National Reintegration Center for OFWs; Overseas Workers Welfare Administration (OWWA); and National Maritime Polytechnic (NMP).

[12] Diaz-Manalo P., Estrada M., and Baluyot D. (2021). Implications of the Supreme Court ruling on the Mandanas-Garcia IRA Case. CPBRD Discussion Paper 2021-2. Retrieved from: https://cpbrd.congress.gov.ph/2012-06-30-13-06-51/discussion-paper/1363-dp2021-02-implications-of-the-sc-ruling-onthe-mandanas-garcia-ira-case.

Social Protection

The Marcos administration aims to mitigate the socio-economic scarring of the COVID-19 pandemic by making social protection delivery more efficient, targeted and adaptive and responsive to shocks. To strengthen the poverty reduction and human capital investment functions of the *Pantawid Pamilyang Pilipino* Program (4Ps), its budget is up by 7.3 percent to PhP115.6 billion from this year's PhP107.7-billion allocation. Meanwhile, PhP25.3 billion has been allocated for the social pension for 4.1 million indigent senior citizens. This budget should be doubled to fully implement Republic Act (RA) No. 11916 which increased the monthly allowance of indigent senior citizens of PhP500 to PhP1,000. In addition, despite the increase in the 4Ps budget, spending for several social assistance programs will decline, with the Protective Social Welfare Program of the DSWD absorbing a substantial budget cut of PhP19.11 billion. As millions of Filipinos still reel from the shocks of the pandemic and the socio-economic repercussions of rising global tensions, and continue to face the risks of disasters, budgets for targeted and adaptive social protection programs may have to be preserved, while also improving beneficiary identification, enhancing monitoring and evaluation, and increasing implementation efficiency.

Defense

The primary goal of the government is to defend the country from all enemies, foreign and domestic; and thus, ensure or uphold public order, safety, peace and security. Given the threats posed by terrorist groups and the possible armed conflict due to overlapping territorial claims, this goal has been accorded high priority by the previous and current administrations in their development plans and socioeconomic agenda, respectively. Among the strategies to achieve this goal is to: (1) ensure public safety (e.g., prevent and counter terrorism, provide humanitarian assistance and disaster response); and (2) uphold and protect territorial integrity and sovereignty.

To support these strategies, the government will provide PhP250.7 billion in 2023 as its allocation for defense. This is 13.3 percent higher than the current year's level of PhP221.1 billion. The Department of National Defense (DND) will be allotted 94.3 percent of the defense budget, or PhP236.3 billion. The other 5.7 percent or PhP14.3 billion will be allotted to Other Special Purpose Funds (e.g., MPBF, NDRRMF or National Disaster Risk Reduction and Management Fund, among others).

As in previous years, the Armed Forces of the Philippines (AFP) will get the biggest share of DND's defense allocation, amounting to PhP234.2 billion. This is 9.4 percent higher than the present budget of PhP210.6 billion, and is equivalent to 99.1 percent of the DND's entire defense appropriations. The budget will be distributed to the following commands: (1) Philippine Army (PhP109.9 billion or 46.5%); (2) Philippine Air Force (PhP35.4 billion or 14.9%); (3) Philippine Navy (PhP34.8 billion or 14.7%); and (4) General Headquarters (GH): AFP and AFP-Wide Service Support Units (PhP54.1 billion or 22.9%). The remaining PhP2.1 billion or 0.9 percent will be shared by the Office of the Secretary and the General Arsenal.

The main program of the government in this sector is the Armed Forces Defense Program (i.e., Land, Air, and Naval Forces Defense Programs). It has a combined strength of 157,349 military personnel, 71.8 percent of which is in the army. The program represents 71.1 percent of the defense budget of the AFP, amounting to PhP166.5 billion. Of this amount, 70.62 percent is for Personnel Services. To strengthen external defense capabilities, the government is allocating PhP40 billion to the Revised AFP Modernization Program, the third and final phase of which is slated for 2023 to 2028. The said amount is lodged under the GH defense budget. To be able to build a credible defense posture and assert its maritime claims over the West Philippine Sea, however, the annual defense spending will need to be increased to the regional average of about 2.0 percent of the country's GDP or around PhP450 billion.

Climate Change and Disaster Risk Management

As expressed in the President's budget message, the Marcos administration envisions an economic transformation that includes a transformation to a green economy. It likewise recognizes the need to increase capacity for "disaster-proof" planning of communities to deal with the impacts of disaster and climate risks. To this end, the government intends to pursue a clean energy transition, adopt a green (and blue) economy roadmap, promote green public works and climate-friendly projects across various sectors, and prioritize disaster prevention measures.

Climate change-tagged expenditures in 2023 will increase to PhP453.11 billion or by 56 percent from year ago level. Seventy-five percent or PhP338 billion of the climate change-tagged budget is allocated for adaptation, while the balance of PhP114 billion is for mitigation programs. The total climate budget represents 8.6 percent of the total national budget and about 2 percent of the projected GDP next year. Among the strategic priorities of the National Climate Change Action Plan, water sufficiency (PhP264 billion) continues to receive the biggest allocation. This is largely due to the Flood Management Program of the DPWH amounting to PhP131.8 billion and the flood control program of the Metropolitan Manila Development Authority (MMDA) with a budget of PhP1.4 billion.

Table 19. Climate Change Expenditures by National Climate Change Action Plan Strategic Priorities, 2021-2023 (in PhP billion)

NCCAP Strategic Priorities	2021			2022			2023		
	Adaptation	Mitigation	Total	Adaptation	Mitigation	Total	Adaptation	Mitigation	Total
Food security	14.90	.24	15.14	28.39	.37	28.77	40.19	.59	40.78
Water sufficiency	145.19	-	145.19	217.46	-	217.47	264.89	-	264.89
Ecosystem and environmental stability	1.26	3.90	5.16	4.33	2.96	7.29	2.62	3.39	6.00
Human security	1.45	-	1.45	1.74	-	1.74	3.43	-	3.43
Climate-smart industries and services	1.98	2.12	4.09	4.35	2.12	6.47	2.84	2.14	4.98
Sustainable energy	4.00	1.09	5.09	4.75	20.06	24.80	22.99	108.52	131.51
Knowledge and capacity development	1.15	-	1.15	2.27	-	2.27	.84	-	.84
Cross-cutting	.36	.55	.91	.12	.79	.92	.41	.28	.68
TOTAL	**170.29**	**7.90**	**178.19**	**263.42**	**26.31**	**289.73**	**338.65**	**114.89**	**453.11**

Source: 2023 BESF Table B22 (updated)

As the government will augment the budget for climate change adaptation and mitigation programs[13] by an average of at least 15 percent annually, it must be more strategically aligned towards the transition to a green and climate-resilient economy. This means spending more substantially in human security, ecosystem and environmental stability, food security, climate-smart industries and services, and sustainable energy. In this way, the climate budget will enable the achievement of the Philippines' ambitious mitigation commitment of 75 percent greenhouse gas (GHG) emissions avoidance and reduction by 2030 under its first Nationally Determined Contribution (NDC).

In anticipation of disasters and calamities, the allocation for the NDRRMF will be increased to PhP31.0 billion, a 55 percent growth from this year's budget. Aside from being a stand-by fund for post-disaster relief and recovery programs, the NDRRMF should be increasingly utilized for disaster risk reduction, thereby augmenting the budget for preventing and adapting to natural and climate-induced disasters such as floods, landslides, and drought.

[13] Climate change adaptation measures, which address the impacts of climate change, range from establishing early warning systems, to making new infrastructure resilient, switching to more drought- or flood-tolerant crops, and restoring ecosystems to cope with climate change, among others. Climate change mitigation measures reduce or avoid GHG emissions in the atmosphere by adopting renewable energy sources, promoting sustainable transport, improving energy efficiency, and restoring forests and landscapes, among others.