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DEPARTMENT OF BUDGET AND MANAGEMENT

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NATIONAL BUDGET MEMORANDUM

No. 141
Date: June 15, 2021

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 2022 AGENCY BUDGET PROPOSALS UNDER TIER 2 (PART II)**

1.0 PURPOSE

This National Budget Memorandum (NBM) aims to provide departments and agencies with the information on the amount of the FY 2022 fiscal space available for Tier 2 based on the macroeconomic assumptions and fiscal aggregates which were approved by the Development Budget Coordination Committee (DBCC) on May 18, 2021;

2.0 MACROECONOMIC AND FISCAL ENVIRONMENT OF THE FY 2022 BUDGET

2.1 Macroeconomic Assumptions

For planning purposes, the following are the initial macroeconomic and growth assumptions approved by the DBCC on May 18, 2021.

Table 1. Macroeconomic Assumptions, FYs 2021-2024

Parameter	Actual 2020	YTD	Projections [1/]			
			2021	2022	2023	2024
Real GDP Growth (%)	(9.5)	(4.2)	6.0 – 7.0	7.0 – 9.0	6.0 – 7.0	6.0 – 7.0
Inflation (%)	2.6	4.5	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0	2.0 – 4.0
Dubai Crude Oil (US$/bbl)	42.21	61.83	50 – 70	50 – 70	50 – 70	50 – 70
FOREX (P/US$)	49.62	48.25	48 – 53	48 – 53	48 – 53	48 – 53
Growth of Goods Export (%)[2/]	(11.3)	n.a.	8.0	6.0	6.0	6.0
Growth of Goods Import (%)[2/]	(23.9)	n.a.	12.0	10.0	8.0	8.0

[1/] Monetary and external indicators for FYs 2021–2024 are consistent with the Monetary Board approval on April 29, 2021.

The Philippine economy contracted by 9.5 percent in 2020, reversing the 6.0 percent growth in the previous year, but still within the revised DBCC growth target of -8.5 to -9.5 percent.[1] Economic growth was principally affected by the quarantine restrictions imposed in the country to contain the spread of the coronavirus disease (COVID-19)

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[1] Approved by the DBCC during its 179th meeting on May 18, 2021.

pandemic. Sluggishness in global trade and tourism also contributed, although the impact of these developments was tempered by the gradual easing in quarantine restrictions as well as healthcare system improvements during the second semester.

The DBCC projects that the economy will recover with a 6.0 to 7.0 percent growth in 2021, but is not expecting a return to pre-pandemic GDP levels until 2022. Growth prospects are largely hinged on three (3) interventions, namely: (i) intensified implementation of the prevent, detect, isolate, treat, and recover (PDITR) strategy and the full vaccination of residents in high-risk areas (e.g. NCR Plus); (ii) optimization of the process of detection to isolation of COVID-19 positive cases; and (iii) provision of supplemental support to the health sector and the poor and vulnerable. These are all meant to minimize the spread of the COVID-19 and safely reopen the economy.

Inflation averaged 2.6 percent in 2020, well within the government target of 2.0–4.0 percent but still slightly higher than the 2.5 percent annual rate in 2019. This was due to the acceleration in the prices of food and non-food items such as transport services and petroleum products, as well as supply disruptions resulting from adverse weather conditions. The Bangko Sentral ng Pilipinas (BSP) expects inflation to remain elevated in the coming months on account of supply constraints and domestic price increases in key food commodities, but will return to the target range by the fourth quarter of 2021 given the policy measures being taken to beef up supply.

The peso-dollar exchange rate appreciated to P49.62 /US$ from P51.80 /US$ in 2019, brought about by the favorable gross international reserves and positive market sentiment. It will remain stable over the medium-term despite external depreciation pressures from the pandemic. Meanwhile, the annual Dubai crude oil prices further decreased to 42.21 US$/bbl in 2020 from 63.56 US$/bbl in 2019, owing largely to the pandemic restrictions and a sluggish global economy. According to the BSP, the latest oil futures data suggests that prices could settle at around 60.00 US$/bbl for the rest of the medium-term given the global recovery and the rising demand for petroleum, coupled by production cuts by suppliers.

On the other hand, the preliminary growth rate of goods exports posted an 11.3 percent contraction in 2020 from a 2.7 percent full-year growth in 2019, while growth in goods imports were at -23.9 percent in 2020 from -3.0 percent full-year in 2019. The negative performance was primarily the result of the trade restrictions brought about by the pandemic. However, this performance was still better than expected and signals an improvement in economic activity as lockdown restrictions were gradually eased. The BSP expects foreign and domestic demand to recover over the medium-term with the rollout of the COVID-19 vaccines and the lifting of quarantine restrictions within and outside the country.

The DBCC's outlook for the country's macroeconomic fundamentals is broadly favorable over the medium-term in view of expectations of a full reopening of the economy with the vaccine rollout; better-than-expected revenue performance; improvements in employment prospects; and the passage of key economic recovery bills. Nevertheless, there are downside risks in the form of new coronavirus variants and resurgences.

Expenditure priorities of the National Government will remain consistent with the 0-10 Point Socioeconomic Agenda, the Updated Philippine Development Plan, and the latest Three-Year Infrastructure Program. However, priority shall be accorded to the strategic programs identified under NBM No. 140. Specifically, these include the national vaccination program, assistance to local government units (LGUs) through a Growth Equity Fund (GEF) and capacity development programs, establishment of a

Virology Science and Technology Institute of the Philippines, family planning programs, nutrition-specific and nutrition-sensitive interventions, and the National Identification System.

2.2 National Government Fiscal Environment, FYs 2020-2024

2.2.1 Fiscal Position, FYs 2020-2024

The COVID-19 pandemic presented an unprecedented challenge to the National Government's (NG) fiscal position for 2020. The economic impact of the community quarantines and travel lockdowns contributed to the significant decline in revenue collections last year. Revenues reached P2,856.0 billion, down by P281.5 billion or 9.0 percent. Collections were equivalent to 15.9 percent of GDP compared to the actual outturn of P3,137.5 billion in 2019, which represented a revenue effort of 16.1 percent of GDP.

It is noteworthy, however, that actual revenue collections performed better than expected starting the second semester with the gradual reopening of the economy, and collections by yearend exceeded the revised full year program by P336.2 billion or 13.3 percent. Tax revenues surpassed the program by P299.2 billion (13.6 percent) to reach P2,504.4 billion, and were bolstered by the collections of the Bureau of Internal Revenue (BIR) and the Bureau of Customs (BOC) at P1,951.0 billion and P537.7 billion, respectively. Moreover, non-tax revenues rose to P351.1 billion, likewise exceeding the program by P37.0 billion (11.8 percent) on the back of robust dividend remittances, as well as repayment of interest and advances by GOCCs. The 13.7 percent year-on-year (YoY) growth in non-tax revenues tempered the decline in tax collections, and provided significant support in financing government measures to respond to the pandemic.

Disbursements, on the other hand, grew by 11.3 percent YoY and were recorded at P4,227.4 billion (23.6 percent of GDP). Spending for the year was spurred mainly by COVID-19 measures (e.g. social welfare transfers to indigents, and wage earners, assistance to the agriculture, small businesses, transportation and other sectors) provided under the *Bayanihan* to Heal as One Act (*Bayanihan* I) and the *Bayanihan* to Recover as One Act (*Bayanihan* II). This was reflected in the high annual growth rates of maintenance and other operating expenditures (54.5 percent), allotment to LGUs (33.8 percent), and subsidy (14.3 percent). Infrastructure and other capital outlays surpassed the program by 11.8 percent, providing another growth driver.[2]

The status of COVID-19 measures as of April 15, 2021 shows that total releases have already reached P653.4 billion (3.6 percent of GDP), composed of the P393.6 billion[3] *Bayanihan* I and P259.8 billion *Bayanihan* II funds. Meanwhile, disbursements to date have amounted to P436.2 billion. Of which, P342.9 billion came from *Bayanihan* I and P93.3 billion from *Bayanihan* II, indicating 87.1 percent and 35.9 percent utilization rates,[4] respectively.

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[2] For further discussions, check the NG Disbursement Performance Report as of December 2020. Available at https://www.dbm.gov.ph/index.php/dbcc-matters/reports/ng-disbursement-performance/1651-2020-ng-disbursement-performance

[3] Includes P6.5 billion releases post-*Bayanihan* I which were accommodated within the FY 2020 GAA. The status of COVID-19 Releases is regularly updated on the DBM website. Available at https://www.dbm.gov.ph/index.php/programs-projects/status-of-covid-19-releases#bayanihan-1-and-post-bayanihan-1

[4] Disbursements as percentage of total releases.

The above revenue and disbursement performance resulted in a full-year deficit of P1,371.4 billion or 7.6 percent of GDP for 2020, down by 2.0 percentage points below the 9.6 percent program, due primarily to the better-than-expected revenue collections. The deficit is notably higher than the 3.4 percent deficit ratio realized for 2019. However, in view of the responsible deficit position that the government had implemented in the previous 10 years, where the budget deficit averaged 2.1 percent of GDP, the NG debt was down to 39.6 percent of GDP by the end of 2019 and inched up to 54.6 percent by end 2020,[5] way below the 60 percent of GDP debt threshold considered safe.

For the current year, revenues are projected to inch up to P2,881.5 billion pesos (14.5 percent of GDP). This already considers the implementation of the newly-enacted Corporate Recovery and Tax Incentives for Enterprises (CREATE)[6] and Financial Institutions Strategic Transfer (FIST)[7] Laws, as well as the proposed Government Financial Institutions Unified Initiatives to Distressed Enterprises for Economic Recovery (GUIDE)[8] Act. The CREATE will reduce the corporate income tax rate and rationalize the country's fiscal incentives system to promote investments, while the FIST will enable banks recover from non-performing loans and strengthen the overall financial sector. On the other hand, the GUIDE will allow GFIs to extend more loans to COVID-19 hard-hit industries. The estimated proceeds from the Comprehensive Tax Reform Program (CTRP) measures will be composed of the P122.9 billion from Package 1A (TRAIN Law) and P43.6 billion from Package 2+ (Sin Tax Reform), while the projected revenue loss from CREATE, FIST, and GUIDE will amount to P139.5 billion. The latter is, however, expected to be injected into the economy, giving firms and business with additional resources to help them recoup losses from the pandemic, keep operations afloat, and support future expansions.

Meanwhile, disbursements are anticipated to climb to P4,737.1 billion (23.9 percent of GDP) for 2021, 12.1 percent higher than the 2020 outturn, and slightly above the P4,662.3 billion updated projections in December 2020.[9] The higher spending is mainly attributed to the extension of the availability of appropriations of the FY 2020 General Appropriations Act (GAA)[10] and the *Bayanihan* II,[11] as well as the rollout of the national vaccination program for COVID-19. This will result in a wider fiscal deficit of P1,855.6 billion, equivalent to 9.3 percent of GDP, up from the previously-approved 8.9 percent of GDP.[12]

For 2022, the revenue outlook is forecasted to further improve and gradually revert to pre-pandemic levels, reaching P3,289.5 billion or 14.9 percent of GDP. This will fund the proposed disbursement level of P4,954.6 billion (22.4 percent of GDP). This will finance health and social protection programs, as well as infrastructure development, digitalization, food security, climate and disaster resilience, and advancement of science, technology and innovation (STI).

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5 NG Debt Indicators. Sourced: BTr. Available at https://www.treasury.gov.ph/wp-content/uploads/2021/04/Annual-NG-Debt-Final-1986-2020rev2020gdpfinal_clean.pdf
6 The CREATE Law (Republic Act (RA) No. 11534) was approved on March 26, 2021
7 The FIST Law (RA No. 11523) was approved on February 16, 2021.
8 The GUIDE bill was approved by the Lower House on the third and final reading on February 9, 2021. It remains at the Committee level in the Senate and is expected to be deliberated upon the resumption of the Second Regular Session on May 17, 2021.
9 Projections approved during 178th DBCC Meeting on December 3, 2020.
10 RA No. 11520 or An Act Extending the Availability of the 2020 Appropriations to December 31, 2021
11 RA No. 11519 or An Act Extending the Availability of Appropriations under Republic Act No. 11494, otherwise known as the "*Bayanihan* to Recover as One Act."
12 Projections approved during 178th DBCC Meeting on December 3, 2020.

Moreover, substantial support will be given to LGUs through the higher National Tax Allotment (NTA)[13] as the first year of the implementation of the Supreme Court ruling on the *Mandanas-Garcia* petitions commences, as well as the proposed Growth Equity Fund to assist the poorest and least-capable LGUs.

The deficit will be lower, both in absolute and relative terms, at P1,665.1 billion or 7.5 percent of GDP next year from this year's P1,855.6 billion (9.3 percent of GDP), as the government begins its fiscal consolidation program to lessen borrowings and overall debt, and gradually rebuild its fiscal health overtime.

Moving forward, the government will balance economic recovery and strengthen its fiscal position to future-proof the country from risks and shocks that may come in the long-term. Hence, the deficit will be further reduced to 6.3 percent of GDP in 2023 and 5.3 percent of GDP in 2024.

Table 2. Fiscal Aggregates, FYs 2020-2024

Particulars	**2020**	**2021**	**2022**	**2023**	**2024**
	Actual	**Projections [1/]**			
Levels, in billion pesos					
Revenues	2,856.0	2,881.5	3,289.5	3,586.4	3,999.3
Disbursements	4,227.4	4,737.1	4,954.6	5,114.5	5,403.6
Fiscal Balance	(1,371.4)	(1,855.6)	(1,665.1)	(1,528.0)	(1,404.3)
Appropriations	4,100.0	4,506.0	5,023.6	5,302.1	5,569.3
Percent of GDP					
Revenues	15.9	14.5	14.9	14.8	15.1
Disbursements	23.6	23.9	22.4	21.1	20.3
Fiscal Balance	(7.6)	(9.3)	(7.5)	(6.3)	(5.3)
Appropriations	22.9	22.7	22.8	21.9	21.0
Growth Rate					
Revenues	(9.0)	0.9	14.2	9.0	11.5
Disbursements	11.3	12.1	4.6	3.2	5.7
Fiscal Balance*	(107.7)	(35.3)	10.3	8.2	8.1
Appropriations	13.6	9.9	11.5	5.5	5.0
GDP, in billion pesos	17,938.6	19,849.7	22,080.8	24,221.5	26,569.8

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

Sources: DBM, DOF, and NEDA

[1/] Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 179th DBCC Meeting on May 18, 2021.

2.2.2 Cash-Based Budget Ceiling and Fiscal Space for FY 2022

The Cash Budgeting System (CBS) was adopted by the government since 2019 with the issuance of Executive Order No. 91, s. 2019. Over the past two years, transitory provisions have been implemented which involve the extended validity of implementation and payment for infrastructure capital outlays, and

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

maintenance expenditures and other capital outlays, beyond the fiscal year.[14] This should have enabled the agencies to streamline and improve their planning, procurement, implementation, and monitoring procedures in preparation for the full implementation of the CBS for FY 2022.

The analysis of expenditures from 2017 to 2019 indicates the encouraging efforts of agencies to enhance program and procurement planning, cash programming, and collaboration to ensure that proposed PAPs are implementation ready and budget utilization rates are raised.

Furthermore, the delineation between national, regional, and local plans must be sharpened in view of the Supreme Court ruling on the *Mandanas-Garcia* petitions, which has resulted in the substantial increase in NTA to LGUs starting 2022. LGUs are expected to gradually assume and be primarily responsible for the basic services devolved to them under the Local Government Code and subsequent laws with the receipt of the higher NTA. NG agencies should therefore, refrain from duplicating their efforts, focus on capacitating LGUs and if warranted, shift to addressing emerging national program concerns.

Table 3. Derivation of FY 2022 Cash-Based Budget, in billion pesos

Particulars	2021 [1/]	2022 [1/]	Increase/(Decrease)	
			Amount	Percent
Total Disbursement Program	**4,737.1**	**4,954.6**	**217.4**	**4.6%**
% of GDP	*23.9%*	*22.4%*		
Less: Prior Years' Obligations	505.8	284.5	(221.4)	-43.8%
% of Total Disbursement Program	*10.7%*	*5.7%*		
Current Year Disbursements	**4,231.3**	**4,670.1**	**438.8**	**10.4%**
% of GDP	*21.3%*	*21.2%*		
Add: Obligations to be paid in the succeeding year	274.7	353.5	78.8	28.7%
Cash Appropriations	**4,506.0**	**5,023.6**	**517.6**	**11.5%**
% of GDP	*22.7%*	*22.8%*		
GDP, in billion pesos	*19,849.7*	*22,080.8*		

[1/] Consistent with the macroeconomic and growth assumptions, and fiscal program approved during the 179th DBCC Meeting on May 18, 2021.

The FY 2022 proposed disbursement program is set at P4,954.6 billion, P217.4 billion or 4.6 percent higher when compared to the 2021 program of P4,737.1 billion. Of this amount, some P284.5 billion would be allocated for payment of prior years' obligations. This includes the implementation and payment of some expenditure items which were obligated during the previous year in view of the transitional implementation of the CBS.

[14] Section 62 of the General Provisions of the FY 2021 GAA extends the implementation and payment of infrastructure capital outlays, including subsidy releases to GOCCs for infrastructure projects, until June 30, 2022, while MOOE and other capital outlays can be implemented and paid until March 31, 2022.

The DBCC-approved cash budget for 2022 will then rise to P5,023.6 billion, equivalent to 22.8 percent of GDP and 11.5 percent higher than the P4,506.0 billion budget for this year. Of this amount, around 54.6 percent or P2,742.5 billion is earmarked for the cost of ongoing programs and projects under Tier 1 (Forward Estimates) as shown in Annex A of NBM No. 140 dated May 24, 2021. On the other hand, some P1,951.3 billion or 38.8 percent will be allotted for automatic appropriations such as the NTA and interest payments, among others; as well as special purpose funds, namely, allocation to LGUs (ALGU), National Disaster Risk Reduction and Management Fund (NDRRMF), and Contingent Fund. With the cost of ongoing programs/projects and automatic appropriations already accounting for nearly 94.0 percent of the proposed total cash budget next year, the government is left with only some P329.8 billion (6.6 percent of the proposed FY 2022 Budget) for new and expanded programs and projects under Tier 2. This compares with the P714.3 billion average fiscal space for Tier 2 of the last five years (2017-2021).

Line agencies, therefore, shall focus on the more pressing priorities identified in the Budget Priorities Framework issued under NBM No. 140 dated May 24, 2021, and comply with the prescribed guidelines under NBM No. 138, dated January 6, 2021 in crafting their budget proposals.

4.0 For information.

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Secretary

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